Understanding Loan Repayment
Important Things to Know

► Understand your student loan portfolio
  ▪ Know what types of loans you have
  ▪ Know your lenders and servicers
  ▪ Know how much you owe
  ▪ Know what your interest rate is
  ▪ Know what your total monthly payments will be
  ▪ Know what borrower benefits are available

► Understand interest capitalization and its impact
► Know grace, deferment and forbearance options
► Know federal loan repayment plan options
► Avoid delinquency and default
► Keep good records
► Know your resources
Federal Student Loans
National Student Loan Data System
www.nslds.ed.gov

Private Student Loan
www.annualcreditreport.com
Interest Capitalization and Its Impact

Interest on most loans accrues from the date funds are disbursed until the loan is paid in full

The chart provides estimates, for a $5,000 Stafford loan with a 4.66% interest rate, of the monthly payments due at the end of a 12 month forbearance for a 10 year term.

<table>
<thead>
<tr>
<th>Treatment of Interest During Forbearance Status</th>
<th>Principal at Repayment</th>
<th>Cap. Int. During Forbearance</th>
<th>Principal at end of Forbearance</th>
<th>Term</th>
<th>Payment Amount</th>
<th>Total Amount Repaid</th>
<th>Total Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest is paid as it accrues</td>
<td>$5,000</td>
<td>$0</td>
<td>$5,000</td>
<td>120</td>
<td>$52</td>
<td>$6,498</td>
<td>$1,551</td>
</tr>
<tr>
<td>Interest is capitalized at end of status</td>
<td>$5,000</td>
<td>$233</td>
<td>$5,233</td>
<td>120</td>
<td>$55</td>
<td>$6,557</td>
<td>$1,610</td>
</tr>
<tr>
<td>Interest is capitalized quarterly and at end of status</td>
<td>$5,000</td>
<td>$237</td>
<td>$5,237</td>
<td>120</td>
<td>$55</td>
<td>$6,562</td>
<td>$1,615</td>
</tr>
</tbody>
</table>

TIP: Students should consider asking family to help with interest.
Understanding Grace, Deferment and Forbearance Options

► **Grace Period** - period of time after a borrower graduates, leaves school or drops to less than half-time
  - No payments required during this period
  - Time varies based on loan type
  - Does not adversely impact credit

► **Deferment** - period when borrower who meets certain criteria may suspend loan payments
  - Common types of deferment:
    - In-school
    - Economic Hardship
    - Military
  - Does not adversely impact credit

► **Forbearance** - typically sought for temporary repayment relief and provides temporary adjustment of no payments or reduced payments
  - Be careful to use because it adds expense
  - Can be very useful to help avoid delinquency and default
  - Does not adversely impact credit
Federal Loan Repayment Plans

- **Standard Repayment**
  - Level monthly payments that cover accruing interest and a portion of principal over a 10-year period
  - Higher monthly payments
  - Lowest overall cost

- **Graduated Repayment**
  - Payments start low, increase over time
  - Interest only payments followed by standard principal and interest
  - Finish in 10 years
  - Higher overall cost – but provides lower initial payment amount
  - Can be combined with Extended Repayment
**Income Sensitive Repayment (Non-direct Federal Loans)**
- Payments are based on percentage of your monthly income
- Payments must be sufficient to cover accruing interest
- Finish in 10 years (may be extended to 15 years)

**Income-Contingent Repayment (Direct Loans Only)**
- Payment is based on income
- Negative amortization is allowed
- Up to 25 years to repay
- Balance remaining after 25 years’ worth of payments can be forgiven
Federal Loan Repayment Plans (Continued)

► **Extended Repayment**
  - Available to borrowers who have accumulated more than $30K in Direct or FFELP Federal Stafford, PLUS and Consolidation loans first disbursed on or after October 7, 1998
    - Direct and FFELP Federal Loans are accumulated separately in determining eligibility
  - Repayment can be extended up to 25 years
  - Payments may be fixed or graduated
  - Permits you to manage monthly cash flow needs, but will increase your cost

► **Income-Based Repayment**
  - Available to borrowers of most federal student loans experiencing financial hardship
  - Borrower qualifies if annual amount due on all eligible student loans under a standard repayment period exceeds 15% of “discretionary income”
  - If eligible for IBR, borrower’s monthly payment will be determined by a formula that takes into account household size and adjusted gross income. Increases in income will impact the required monthly payment amount
  - Unpaid balance may be forgiven after 25 years of scheduled monthly payments
  - **Changes effective for Direct Loans made to new borrowers on or after July 1, 2014:**
    - Borrower qualifies if annual amount due under a standard repayment plan exceeds 10% of discretionary income and unpaid balance may be forgiven after 20 years of payments
Pay As You Earn (Direct Loans Only)

- Announced by ED December 21, 2012

- Available to new Direct loan borrowers (except Parent PLUS) experiencing financial hardship
  - No loan balance as of October 1, 2007, and
  - Received a Direct loan on or after October 1, 2011

- Borrower qualifies if annual monthly student loan payments exceed 10% of “discretionary income”

- Similar to IBR, borrower’s monthly payment will be determined by a formula that takes into account family size and adjusted gross income. Increases in income will impact the required monthly payment amount

- Unpaid balance may be forgiven after 20 years of qualifying repayment
Loan Consolidation

- Provides the ability for borrowers to consolidate all of their federal loans into one new loan
- FFEL and Direct Stafford Loans, Perkins Loans and PLUS Loans may be consolidated
- Interest Rate: weighted average of the interest rates on the loans being consolidated rounded to the nearest higher one-eighth of one percent
- Multiple Repayment Options: Standard, Graduated, Extended, Income Contingent, Income Based

Benefits:
- Possible longer repayment period
- Potential lower monthly payment
- Single servicer

Application Process: [www.studentloans.gov](http://www.studentloans.gov)
# Federal Loan Repayment Comparison – Undergraduate Example

<table>
<thead>
<tr>
<th>Plan</th>
<th>Initial Monthly Payment</th>
<th>Long-term Monthly Payment</th>
<th>Total Interest Paid</th>
<th>Years in Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>$292.00</td>
<td>292.00</td>
<td>$6,855.00</td>
<td>10</td>
</tr>
<tr>
<td>Graduated</td>
<td>$165.00</td>
<td>$494.00</td>
<td>$8,589.00</td>
<td>10</td>
</tr>
<tr>
<td>Extended - Fixed</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Extended - Graduated</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Income Based</td>
<td>$281.00</td>
<td>$292.00</td>
<td>$6,939.54</td>
<td>10.1</td>
</tr>
<tr>
<td>Income Contingent</td>
<td>$221.00</td>
<td>$273.00</td>
<td>$9,209.00</td>
<td>12.8</td>
</tr>
<tr>
<td>Income Sensitive</td>
<td>$105.00</td>
<td>$292.14</td>
<td>$8,080.10</td>
<td>11</td>
</tr>
<tr>
<td>Pay as You Earn</td>
<td>$187.00</td>
<td>$292.00</td>
<td>$8,966.06</td>
<td>11.8</td>
</tr>
<tr>
<td>Consolidation</td>
<td>$178.03</td>
<td>$178.03</td>
<td>$14,793.40</td>
<td>20</td>
</tr>
</tbody>
</table>

Assumes $27,000 in undergraduate Stafford loans ($19,000 in subsidized and $8,000 in unsubsidized loans) over a 4 year period. Subsidized interest rates ranged from 3.4% to 4.66% based on statutory limits for each AY. Unsubsidized Stafford loans ranged from 3.86% to 6.8%.
Federal Loan Repayment Comparison – Graduate Example

<table>
<thead>
<tr>
<th>Plan</th>
<th>Initial Monthly Payment</th>
<th>Long-term Monthly Payment</th>
<th>Total Interest Paid</th>
<th>Years in Repayment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>$756.00</td>
<td>$756.00</td>
<td>$23,045.00</td>
<td>10</td>
</tr>
<tr>
<td>Graduated</td>
<td>$433.00</td>
<td>$1,299.00</td>
<td>$29,245.00</td>
<td>10</td>
</tr>
<tr>
<td>Extended - Fixed</td>
<td>$442.00</td>
<td>$442.00</td>
<td>$64,837.00</td>
<td>25</td>
</tr>
<tr>
<td>Extended - Graduated</td>
<td>$346.00</td>
<td>$659.00</td>
<td>$76,396.00</td>
<td>25</td>
</tr>
<tr>
<td>Income Based</td>
<td>$281.19</td>
<td>$756.59</td>
<td>$40,939.48</td>
<td>14.3</td>
</tr>
<tr>
<td>Income Contingent</td>
<td>$472.00</td>
<td>$737.00</td>
<td>$36,315.00</td>
<td>14</td>
</tr>
<tr>
<td>Income Sensitive</td>
<td>$346.49</td>
<td>$756.48</td>
<td>$27,229.00</td>
<td>11</td>
</tr>
<tr>
<td>Pay as You Earn</td>
<td>$187.46</td>
<td>$756.59</td>
<td>$44,694.03</td>
<td>15.3</td>
</tr>
<tr>
<td>Consolidation</td>
<td>$412.05</td>
<td>$412.05</td>
<td>$81,356.29</td>
<td>30</td>
</tr>
</tbody>
</table>

Assumes $61,500 in graduate Stafford Loans ($25,500 subsidized and $36,000 unsubsidized) over a 3 year period. Interest rates for subsidized Stafford Loans were 6.8% and unsubsidized Stafford interest rates ranged from 5.41% to 6.8% based on statutory limits for each AY.
Private Loan Repayment

- Private loans are almost always unsubsidized for the life of the loan
- Repayment terms vary
- Choice of repayment plans may be available
- Residency and internship deferments may be available
- Forbearances may be available
  - Consult your loan servicer

TIP:
Refer to your promissory note and/or your servicer to determine your available options.
Paying Loans Off Early

- Borrowers can always prepay federal and private student loans without penalty.

- Be aware of the relative cost and make payments towards unsubsidized loans while still in school/during deferments that have the highest rates and/or most frequent capitalization. This should save more money over time.

- Unless otherwise noted, loan payments typically are applied first toward late fees, then interest, and finally principal.
Delinquency & Default (Federal/Private Loans)

Delinquency & defaults on student loans can adversely impact your credit history

- **Delinquency**
  - Failure to make payment(s) when due
  - Reported to credit bureaus; affects borrowers history

- **Default**
  - Collection agencies may take over adding to cost
  - Lender can take legal action
  - School can withhold records
  - Federal defaults could include wage garnishment & withholding of federal tax refunds
  - Student loans are rarely discharged in bankruptcy
Keep Good Records

- Get all loan documents together: keep them on file!
  - Promissory notes
  - Disclosure statements
  - Award letters
- Exit interview information
- Open and READ student loan mail
- Bookmark loan servicer’s websites
- Notify loan servicer(s) of name & address changes
- Document calls to servicer: date/time of call & person who handled the call
- Keep important numbers available
Resources

- School financial aid office
- Lender/servicer
- Federal Student Aid Ombudsman
  - U.S. Department of Education – FSA Ombudsman
    http://www.ombudsman.ed.gov or 1-877-557-2575
- Federal Loan Servicers:
  - GREAT LAKES
    800-236-4300 - www.mygreatlakes.org
  - FEDLOAN
    800-699-2908 - www.myfedloan.org
  - NELNET
    888-486-4722 - www.nelnet.com
  - NAVIENT
    800-722-1300 - www.navient.com
Money Management: Everyday Steps
Where does my money go?

- Create a spending plan
- Set priorities
- Practice good spending habits:
  - Look for sales
  - Use coupons
  - Buy store brands
  - Price compare
  - Don’t use credit cards for things you can’t afford
Saving allows you to achieve your financial goals and provides a safety net during challenging times

► Set specific savings goals
  ▪ Emergency fund (Today)
  ▪ Short term: cell phone (Today)
  ▪ Long term: down payment on a house (Tomorrow)

► Budget monthly savings into your spending plan

► Explore options based on goals:
  ▪ Saving Accounts
  ▪ Certificate of Deposit (CD)
  ▪ Money Market Deposit Account
  ▪ Money Market Mutual Funds
  ▪ U.S. Treasury Bills

Money market funds are a type of mutual fund managed so as to preserve a stable value of $1.00 per share; however, there is no guarantee that the share value will not drop below $1.00. Investors should refer to the particular fund’s prospectus for additional information and/or consult a financial advisor.

US Treasury Bills are general obligations of the US Government. While these investments generally involve less risk than other investments, all investments involve risk and are subject to terms and conditions. Please consult your financial advisor for more information.
Credit Management
Credit plays an important role in managing your money – do not take on more than you can handle.

1. Live within your means
2. Know what you owe
3. Borrow only what you can afford
4. Maintain a good credit rating
5. Check your credit report annually
6. Use credit wisely
7. Recognize the warning signs of financial difficulty
8. Know a scam when you see one
9. Guard against identity theft
10. View bankruptcy as a last resort
Understanding FICO® Scores

What is a FICO® Score?
A FICO® Score is a numerical expression based on a statistical analysis of a person’s credit file developed by Fair Isaac Company.

- A person’s FICO® Score can impact how much they will pay for loans, insurance, and other financial services.
- The FICO® Score can range from a maximum of 850 to lowest of 300 - the average national score is 692.

This information was available from www.scoreinfo.org as of June 2014.
Ways to Improve Your Credit Score

Credit scores are continually changing, depending on how well - or poorly- the person manages their credit.

► To build and maintain a strong credit score:
  - Pay bills on time
  - Apply for credit only when necessary
  - Keep credit card balances to less than 50% of the available credit limit
  - Make more than the minimum payment
  - Have a mix of credit account types
  - Review your credit report regularly at annualcreditreport.com

Tip: The longer your credit history, the better!
Good Credit vs. Poor Credit – What Does it Mean?

**GOOD CREDIT**
- Lower interest rates
- Could save hundreds, if not thousands, of dollars in interest costs
- Allows you to be more selective when choosing a lender
- Can mean preferred rate on car insurance

**BAD CREDIT**
- Higher interest rates
- Result in loan applications being rejected
- Can get denied for basic services
- Can mean high cost premium on car insurance
- Can cost you that job
National Credit Bureau Agencies

Equifax

Phone: 800-685-1111
Website: www.Equifax.com

Experian

Phone: 888-397-3742
Website: www.Experian.com

TransUnion

Phone: 800-916-8800
Website: www.TransUnion.com
Know What You Owe

Put together a snapshot of what you owe

Student loans $ ____________

Other loans:
• Credit card balance(s) $ ____________
• Automobile loan $ ____________
• Mortgage loan or rent $ ____________

Other money owed:
• Utilities, cable, internet $ ____________
• Phone $ ____________

TOTAL $ ____________
Don’t Borrow More than You Need

Calculate your debt-to-income ratio:

Minimum debt payments
(including mortgage or rent)    \[ \underline{\text{Monthly gross income}} \]

Example: You earn $5,000 each month in gross income, and a yearly bonus nets you a $500 a month. Your total monthly income is $5,500.
You pay $200 a month in student loans, $500 in rent, $150 on a car payment, and $150 on your credit card and other expenses. Your total monthly debt payments are $1,000.
$1,000 (debt) divided by $5,500 (income) = a ratio of 18.2%
Using Credit Cards the Right Way

► Start small with one card and a low credit limit

► Make small everyday purchases – not extra purchases to get rewards

► Understand your spending by analyzing the statement each month

► Pay off your balance each month

✓ Know and watch the interest rate
✓ Get the “full scoop” on special introductory rates
✓ Stay out of the “penalty” box
Bankruptcy: It’s Not an Easy Out

Bankruptcy is filed by people who are unable to pay their debts

- Bankruptcy allows the court to “erase” your bills and allows you to start over
- Bankruptcy filings stay on your credit report for up to 10 years
- Bankruptcy courts are reluctant to discharge student loans
- Should only be used as an absolute last resort
What If My Identity is Stolen?

► Alert a credit reporting agency
  ▪ Place a fraud alert (free)
  ▪ Ask them to contact the other 2 agencies on your behalf
  ▪ Alert stays on your credit report for 90 days

► Get copies of your free credit report from each of the agencies
  ▪ Contact the fraud department at each of the companies with impacted accounts
  ▪ Follow up in writing & keep copies

► Create an Identity Theft Report
  ▪ FTC Identity Theft Affidavit (www.ftccomplaintassistant.gov)
  ▪ Police Report
The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered of evaluated. Nothing in this presentation constitutes or is designed to constitute legal advise.