TAKE CHARGE OF LOAN REPAYMENT!

Strategies for Managing Your Debt Successfully

Spring 2014
Federal student loans are unique ... 

- Flexible monthly payment options including the \textit{income-driven repayment} plans
  - Payments will \emph{always} be less than 15\% of household’s monthly AGI if you choose the plan with smallest monthly payment
  - Portion of debt could be forgiven or cancelled

- Payment relief options
  - Deferment
  - Forbearance
  - Adjustments to monthly payment

\textbf{Therefore, they are LOW RISK debt}—Unlike all other debt (including private student loans), you should never have to miss a payment or default on a federal student loan due to these attributes.
Your Action Plan

4 Steps

1. Take stock of your loan portfolio
2. Determine when repayment begins
3. Pick your repayment plan
4. Evaluate if “Consolidation” is beneficial

Remember, you must repay all that you owe!
Step 1

Review your loan history
What do you need to know?

For each loan in your portfolio:

- Type of loan
- Interest rate
- Amount owed
- Who to repay
- When repayment begins
- Repayment options
NSLDS.ed.gov

“Financial Aid Review”—A Useful Resource

To access, enter:

- SSN
- First two letters of your last name
- Birthdate
- Dept. of Ed PIN

Duplicate PIN available at:

PIN.ed.gov
Loan Summary Screen

A. “Type of Loan” – Is it a “Direct” loan?
B. Total Owed (“Outstanding Principal” + “Outstanding Interest”)

### NSLDS.ed.gov

#### Aid Summary for JEFFREY E HANSON

Your enrollment status is NO RECORD FOUND, effective 09/18/1996.

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Loan Amount</th>
<th>Loan Date</th>
<th>Disbursed Amount</th>
<th>Canceled Amount</th>
<th>Outstanding Principal</th>
<th>Outstanding Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 STAFFORD SUBSIDIZED</td>
<td>$2,500</td>
<td>08/20/1986</td>
<td>$2,500</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2 STAFFORD SUBSIDIZED</td>
<td>$5,000</td>
<td>07/25/1985</td>
<td>$5,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>3 STAFFORD SUBSIDIZED</td>
<td>$5,000</td>
<td>06/28/1984</td>
<td>$5,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Total STAFFORD SUBSIDIZED</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Total All Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>
**Loan Details Screen**

A. “Scheduled Start of Repayment” or “Date Entered Repayment”

B. “Loan Status”

C. “Current Lender” / “Current Servicer” (“Current ED Servicer”)

For example:
- Loan originated
- Deferred

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**NSLDS.ed.gov**
Who do you repay?

You should know:

- Roles of lender/holder and loan servicer
  - You will be working with your loan SERVICER

- How to contact loan servicer
  - Phone number
  - Website
Who is your servicer?

- Direct Loans initially are assigned to one of the following four ED servicers:

<table>
<thead>
<tr>
<th>Servicer</th>
<th>Website</th>
<th>Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>FedLoan Servicing</td>
<td>myfedloan.org</td>
<td>(800) 699-2908</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>mygreatlakes.org</td>
<td>(800) 236-4300</td>
</tr>
<tr>
<td>Nelnet</td>
<td>nelnet.com</td>
<td>(888) 486-4722</td>
</tr>
<tr>
<td>Sallie Mae</td>
<td>salliemae.com</td>
<td>(800) 722-1300</td>
</tr>
</tbody>
</table>

- ED may transfer your Direct Loans to another servicer in the future—you will be notified!

- Check “loan detail” screen on NSLDS.ed.gov to verify contact information for your loan servicer(s)
# Loan Portfolio Chart

## Sample Worksheet

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Interest Rate</th>
<th>Lender</th>
<th>Servicer</th>
<th>Amount Owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Stafford</td>
<td>5.41%</td>
<td>U.S. Dept. of Education</td>
<td>( )</td>
<td>$</td>
</tr>
<tr>
<td>Direct Grad PLUS</td>
<td>6.41%</td>
<td>U.S. Dept. of Education</td>
<td>( )</td>
<td>$</td>
</tr>
</tbody>
</table>
Determine when repayment begins
When does repayment begin?

<table>
<thead>
<tr>
<th>Loans with GRACE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stafford/Direct Sub and Unsub</td>
</tr>
<tr>
<td>6 months after graduation</td>
</tr>
<tr>
<td>Perkins</td>
</tr>
<tr>
<td>9 months after graduation</td>
</tr>
<tr>
<td>Private</td>
</tr>
<tr>
<td>Contact lender</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans without GRACE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grad PLUS</td>
</tr>
<tr>
<td>6 months after graduation <em>due to automatic 6-month post-enrollment deferment</em></td>
</tr>
<tr>
<td>Consolidation</td>
</tr>
<tr>
<td>At graduation</td>
</tr>
<tr>
<td>Prior loans where grace period has been used</td>
</tr>
<tr>
<td>At graduation</td>
</tr>
</tbody>
</table>
## Repayment Timetable

### Year 1 (Class of 2014)

<table>
<thead>
<tr>
<th>Loan</th>
<th>Degree</th>
<th>Grace Period</th>
<th>Payment Start Date</th>
<th>Action Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Stafford</td>
<td>Law</td>
<td>6 months</td>
<td>≈ 12/1/2014</td>
<td>Select payment plan near end of grace period</td>
</tr>
<tr>
<td>Direct Grad PLUS</td>
<td>Law</td>
<td>none</td>
<td>≈ 12/1/2014</td>
<td>Verify post-enrollment deferment will be applied automatically after graduation</td>
</tr>
</tbody>
</table>
Step 3

Pick your repayment plan
Picking Your Plan

Suggested steps:

1. Understand your options
2. Estimate your budget
3. Define your goals
4. Evaluate possible tradeoffs
5. Leverage loan repayment flexibility
6. Pick your plan
Understanding Your Options
# Loan Repayment Options

**Stafford, PLUS and Consolidation Loans**

<table>
<thead>
<tr>
<th>Options</th>
<th>Payment Structure</th>
<th>Payment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on DEBT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard</td>
<td>Fixed</td>
<td>10 years</td>
</tr>
<tr>
<td>Graduated</td>
<td>Tiered</td>
<td>10 years</td>
</tr>
<tr>
<td>Extended</td>
<td>Fixed or tiered</td>
<td>25 years</td>
</tr>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>Adjusted annually based on:</td>
<td></td>
</tr>
<tr>
<td><em>(Direct only)</em></td>
<td>- Household AGI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Household size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Poverty guideline</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- State of residence</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*10% of annual “Discretionary Income”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>20 years*</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*Any debt remaining after 20 years is cancelled (amount cancelled taxable)</td>
<td></td>
</tr>
<tr>
<td>Income Based (IBR)</td>
<td>Adjusted annually based on:</td>
<td></td>
</tr>
<tr>
<td><em>(Direct only)</em></td>
<td>- Household AGI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Household size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Poverty guideline</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- State of residence</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*15% of annual “Discretionary Income”</td>
<td></td>
</tr>
<tr>
<td></td>
<td>25 years**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>**Any debt remaining after 25 years is cancelled (amount cancelled taxable)</td>
<td></td>
</tr>
<tr>
<td>Income-Contingent (ICR)</td>
<td>Adjusted annually based on:</td>
<td></td>
</tr>
<tr>
<td><em>(Direct only)</em></td>
<td>- Household AGI</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Household size</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Total amount of Direct Loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>*Approx. 20% of discretionary income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>25 years**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>**Any debt remaining after 25 years is cancelled (amount cancelled taxable)</td>
<td></td>
</tr>
</tbody>
</table>
PAYE
Additional Eligibility Requirements

- Must be a “new borrower” on or after October 1, 2007 (10/1/2007)
  - No federal loans before 10/1/2007, OR
  - No outstanding balance on an existing federal student loan when you borrowed your first federal student loan on or after 10/1/2007

- Must have had a disbursement of a federal student loan on or after 10/1/2011
Estimate Your Monthly Payment
“Repayment Estimator” at: StudentLoans.gov

To “SIGN IN” enter:
• SSN
• First two letters of your last name
• Birthdate
• Dept. of Ed PIN

Duplicate PIN available at: PIN.ed.gov
Payment Comparisons

Federal Student Loan Debt = $80,000 (Weighted average interest rate = 6.58%)
Household AGI = $60,000 (Household Size = 1; State = WI)
(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)
## Payment Comparisons

**Federal Student Loan Debt = $80,000** *(Weighted average interest rate = 6.58%)*

**Household AGI = $60,000** *(Household Size = 1; State = WI)*

*(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)*

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
<th>Monthly Payment Initial to Final Amounts</th>
<th>Projected Loan Forgiveness</th>
<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard* ①</td>
<td>120 months</td>
<td>$912 to $912</td>
<td>-</td>
<td>$29,397</td>
<td>$109,397</td>
</tr>
<tr>
<td>Graduated* ①</td>
<td>120 months</td>
<td>$525 to $1,574</td>
<td>-</td>
<td>$37,438</td>
<td>$117,438</td>
</tr>
<tr>
<td>Extended Fixed ②</td>
<td>300 months</td>
<td>$544 to $544</td>
<td>-</td>
<td>$83,252</td>
<td>$163,252</td>
</tr>
<tr>
<td>Extended Graduated ②</td>
<td>300 months</td>
<td>$439 to $788</td>
<td>-</td>
<td>$97,058</td>
<td>$177,058</td>
</tr>
<tr>
<td>Pay As You Earn** ②</td>
<td>240 months</td>
<td>$356 to $912</td>
<td>$19,406</td>
<td>$88,615</td>
<td>$149,209</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR)** ②</td>
<td>171 months</td>
<td>$535 to $912</td>
<td>$0</td>
<td>$49,569</td>
<td>$129,569</td>
</tr>
<tr>
<td>Income-Contingent Repayment (ICR)** ②</td>
<td>127 months</td>
<td>$805 to $993</td>
<td>$0</td>
<td>$32,676</td>
<td>$112,676</td>
</tr>
</tbody>
</table>

*Note: The data is calculated using the “Repayment Estimator” at StudentLoans.gov.”
Payment Comparisons

Federal Student Loan Debt = $130,000 (Weighted average interest rate = 6.90%)
Household AGI = $60,000 (Household Size = 1; State = WI)
(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)
Payment Comparisons

Federal Student Loan Debt = $130,000 (Weighted average interest rate = 6.90%)
Household AGI = $60,000 (Household Size = 1; State = WI)
(Estimates calculated using “Repayment Estimator” at: StudentLoans.gov)

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
<th>Monthly Payment Initial to Final Amounts</th>
<th>Projected Loan Forgiveness</th>
<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard*</td>
<td>120 months</td>
<td>$1,502 to $1,502</td>
<td>-</td>
<td>$50,289</td>
<td>$180,289</td>
</tr>
<tr>
<td>Graduated*</td>
<td>120 months</td>
<td>$868 to $2,603</td>
<td>-</td>
<td>$64,202</td>
<td>$194,202</td>
</tr>
<tr>
<td>Extended Fixed</td>
<td>300 months</td>
<td>$910 to $910</td>
<td>-</td>
<td>$143,047</td>
<td>$273,047</td>
</tr>
<tr>
<td>Extended Graduated</td>
<td>300 months</td>
<td>$747 to $1,293</td>
<td>-</td>
<td>$165,588</td>
<td>$295,588</td>
</tr>
<tr>
<td>Pay As You Earn**</td>
<td>240 months</td>
<td>$356 to $997</td>
<td>$158,635</td>
<td>$150,645</td>
<td>$150,645</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR)**</td>
<td>296 months</td>
<td>$535 to $1,502</td>
<td>$0</td>
<td>$179,199</td>
<td>$309,199</td>
</tr>
<tr>
<td>Income-Contingent Repayment (ICR)**</td>
<td>188 months</td>
<td>$808 to $1,767</td>
<td>$0</td>
<td>$98,741</td>
<td>$228,741</td>
</tr>
</tbody>
</table>
Choosing Your Plan
When repaying Federal Direct Loans, *faster may not be better*

**You may want to consider:**

- Taking as long as possible to repay your Federal Direct Loans

**Why?**

- You may have better uses for your “extra” funds from an “*opportunity cost*” perspective
Opportunity Cost

- It’s about trade-offs
- You have scarce resources
  - Time
  - Money
- Ask yourself:
  - “If I did not “spend” my time/ money on this now, what else could I use it for—and would that be better for me?”
Other Potential Uses

You must decide how to allocate your monthly income among four “buckets” ...

- **Past**: debts
- **Present**: living expenses
- **Future**: savings, investments
- **Philanthropy**: charitable donations
The “Future” Bucket

You also should be:

- Saving for a “rainy day” – the emergency fund
  - Minimum of 6-9 months of your monthly living expenses

- Investing for retirement
  - Minimum of 10% of your gross monthly income

- Saving for their children’s education
  - Minimum needed uncertain—may need to start paying for children’s education much sooner than expected (e.g., elementary school)

- Saving for the down payment for a home
  - Minimum of 10% of purchase price
What should you do?

**Consider:**

- Choosing the repayment plan that offers the **LOWEST** scheduled monthly payment

**Why?**

- This provides *maximum cash flow flexibility* so that you can:
  - Maximize amount you are prepaying in a targeted way at your most expensive debt (e.g., Grad PLUS Loans)

  **AND/OR**

  - Allocate “extra cash” for other expenses (e.g., *FUTURE* bucket)
Applying for IBR or PAYE

- Contact current loan servicer to apply for IBR/PAYE
- Complete online application at: StudentLoans.gov, as directed (every 12 months)
  - Application collects basic demographic information as well as information about household adjusted gross income (AGI) and household size

You must **CONSOLIDATE** any non-DIRECT federal student loans (e.g., FFEL, Perkins) **before** you can repay that debt using PAYE

Apply at: StudentLoans.gov
Prepaying Loans
Loan Prepayment

- You can make prepayments on your federal student loan(s) without penalty
  - Will reduce total interest paid on loan

- Contact the loan servicer **before** you make a prepayment
  - Ask what steps are needed to submit prepayments
  - Advise servicer you want to “**prepay**” the loan rather than “**advance the due date**”
  - Target prepayment at loan(s) with highest interest rate
Evaluate if Federal Loan Consolidation is needed
Consolidation
Can be confusing!

- Consolidation ≠ COMBINING loans
- Consolidation = REFINANCING loans
Borrowing a new loan

- Federal Direct Consolidation Loan

Only federal student loans are eligible

Interest rate is fixed

- Equals weighted average of interest rates of loans being consolidated then rounded up to nearest 1/8th percent

NEW! Now apply online at: StudentLoans.gov

- Loans must be in grace, repayment, deferment or forbearance
- Can opt to delay funding of new loan until end of grace period
Reasons to Consolidate

- Simplify repayment by reducing number of lenders/servicers
  - *For example, you may have borrowed FFEL Loans as an undergraduate*

- Convert variable-rate Stafford Loans into fixed-rate Direct Consolidation Loan

- Convert FFEL loan(s) into Direct loan debt for Public Service Loan Forgiveness Program and PAYE eligibility

- Convert Perkins/HPSL/LDS loan(s) into Direct loan debt for Public Service Loan Forgiveness Program, IBR and PAYE eligibility

- Lengthen repayment period to reduce monthly payment on federal student loan debt

- Change loan servicer

- Release endorser from Grad PLUS Loan
Final words ...
Benefit for Public Service

Public Service Loan Forgiveness Program (PSLF)
PSLF

Key Points

- DIRECT Loans only
- Work full-time as a paid employee for an eligible public service organization for 10 years (120 months)
- Best to repay loans using PAYE or IBR
- For more information, go to: StudentAid.ed.gov/publicservice
When making decisions about loan repayment ...

Be strategic!

- Weigh the importance of reducing interest costs vs. ability to achieve your other financial goals more quickly

- Beware of risks
  - Uncertainty of future income
  - Uncertainty of future expenses

- Create your “Action Plan”
Direct Loan Payment tips ...

- You will receive a SINGLE, itemized monthly billing statement from the servicer listing all of your Federal Direct Loans in repayment so that you only need to submit one monthly payment for those loans.

- Payments can be made by:
  - Check or money order
  - Online payment
  - “Auto-Pay” program

  SAVE TIME AND MONEY – Sign up for “Auto-Pay” – The U.S. Department of Education currently offers to reduce the interest rate by 0.25% on the federal student loans it owns if the you sign up with your loan servicer to have your monthly loan payments automatically deducted from a checking or savings account.
For more information ...

- Contact your loan servicer(s)
- Refer to online resources, e.g.,
  - Federal student loan repayment: StudentAid.gov
  - Federal loan “Repayment Estimator”: StudentLoans.gov
  - Federal Direct Consolidation Loans: StudentLoans.gov
  - Public service: StudentAid.ed.gov/publicservice
  - National Student Loan Data System: NSLDS.ed.gov
  - Federal Student Aid PIN: PIN.ed.gov
  - Free annual credit report: AnnualCreditReport.com
BE STRATEGIC WHEN REPAYING YOUR LOANS!

Jeffrey Hanson
Education Services

University of Wisconsin Law School