

# Money Talks:

## Understanding and Managing your Student Loans

Financial Aid Office  
University of Colorado Anschutz Medical Campus

*Please note:*

This is for general information purposes only, and borrowers should contact their loan servicer or Direct Loans for specific inquiries, since many repayment options have requirements and conditions a borrower must meet.

# Today's Agenda

- Loan Basics
- Repayment options
- Loan Consolidation
- Consequences of Loan Default
- Deferment and Forbearance Options
- Loan Forgiveness

# Reminder

Federal student loans are unlike any other type of debt (car, mortgage, credit cards) that carry flexible repayment terms and conditions. Unlike personal debt, they offer: deferment, forbearance and forgiveness provisions.

# Important Considerations

## Life:

- Family Obligations
- Financial Goals
- Career Goals

## Student Loans:

- Monthly Payment Amount
- Interest Cost
- Potential Forgiveness



# Types of Student Loans:

## 1. Federal Loans

- Perkins Loans
- Stafford Loans
  - Subsidized and Unsubsidized
- Parent PLUS loans
- Grad PLUS loan

## 2. Alternative (Private) Loans

# Important Terminology

- Lender vs. Servicer
  - Servicer: 3<sup>rd</sup> party agency hired to handle account management
- Direct vs. FFELP
  - Direct: loans made by the US Department of Education called, “Direct Loans”
  - Federal Family Education Loan Program
    - Federally guaranteed loans funded by private entities

# National Student Loan Database Service

- [nslds.ed.gov](https://nslds.ed.gov)
- Chronological listing of federal student aid funds
- Includes: Federal student loans, lender and servicers contact information, total debt and interest, disbursement and payments, loan status, etc.
- Updated by schools, and lenders/servicers
- Does not include private loans



# Federal Perkins Loan

- Result of FAFSA Application
- Need Based
- Fixed Annual 5%
- 9 month grace period
- Undergraduate Limit: \$5,500 annual | \$27,500 agg.
- Graduate Limit: \$8,000 annual | \$60,000 agg.
- Required Promissory Note & Entrance Counseling
- Repaid to School or 3<sup>rd</sup> Party Servicer
- Schools have limited funds
- May need to apply by school's priority deadline to be considered
- **Carefully consider loan benefits before consolidation.**

# Federal Direct Stafford Loan

- Result of FAFSA Application
- Fixed interest rate
- 6 month grace period
- Required Promissory Note & Entrance Counseling
- Borrower charged an origination fee (1.073%)
- Can be awarded subsidized (undergraduates only) or unsubsidized or both
- Flexible Repayment Plans
- Deferment and forbearance options
- Undergraduate: \$5,500-12,500 annual limit
- Graduate: \$20,500
- Professional: Varies by degree

# Stafford Continued

## Unsubsidized

- Interest starts to accrue as soon as the funds are disbursed to your school
  - Only on the amount disbursed

## Subsidized

- Gov't pays interest while in school
- Interest begins to accrue after you graduate or cease to be enrolled at least ½ time.
- Undergraduates ONLY

# Federal PLUS Loans

- Available to parents of dependent undergraduate students and graduate students
- Can be used to fill the remaining cost of attendance after other types of aid (loans, scholarships, etc.)
- Interest rate fixed at 7.21%
- Various Repayment Options
- “Adverse Free” credit history required
- Approximately 4.292% in loan fees
- Co-signer options (if necessary)
- If denied, a dependent student may request additional *Unsubsidized* Stafford Loan
- Must re-apply annually or as needed during the AY

# Capitalization ★

- Addition of unpaid interest to principle loan balance.
- “Paying interest on interest.”
- Contact Loan Servicer for specifics on timing.

\$10,000



\$2,720



\$12,720



Principle + Interest = Larger Principle  
4 Years @ 6.8% @ Repayment

# Examples of Monthly Payments

based on 6.8% interest rate with standard 10 yr repayment period

\$3,500	\$50 per month
\$5,000	\$58 per month
\$7,000	\$81 per month
\$10,000	\$116 per month
\$15,000	\$174 per month
\$25,000	\$290 per month
\$50,000	\$581 per month

# Alternative (Private) Loans

- Consumer loans – not federally guaranteed
- Borrowed in the student's name
  - May require a cosigner
- Based on credit criteria established by lender
- Variable interest rates dependent upon market interest rates
  - Prime or LIBOR
- Interest accrues immediately
- Repayment usually begins 6 months after enrollment ceases or graduation
- Fewer repayment plans and forbearance options
- Often not eligible for loan forgiveness

# Types of Federal Loan Repayment Options

- Standard
- Graduated
- Extended
- Income Based Repayment (IBR)
- Pay-As-You-Earn (PAYE)
- Income Sensitive (ISR) – FFELP Loans only
- Income Contingent (ICR) – Direct Loans only

*Reminder: There are no pre-payment penalties!*



# Traditional Plans

- Standard: 10 Years
  - Highest Monthly Payment
  - Least Expensive Interest Cost
  - Default payment with Servicer
- Graduated: 10 Years
  - More Expensive than Standard
  - Payment: adjusts every two years
- Extended: up to 25 Years
  - For borrowers with balances of \$30,000 or more
  - Lowest Monthly Payment
  - Most Expensive Interest

# Income Driven Plans

<b>Program:</b>	<b>AKA:</b>	<b>% of Discretionary Income</b>
Income Based Repayment	IBR	15
Pay As You Earn	PAYE	10
Income Contingent (Direct Loans Only)	ICR	20
Income Sensitive (FFEL Loans Only)	ISR	4-25*

*Payment Is Recalculated Annually w/ AGI & Household Size.*

*\*Gross monthly income used to calculate payment, not AGI.*

# “Discretionary Income”

- 15% (IBR) or 10% (PAYE) of income that exceeds 150% of the poverty line for a borrower’s family size.

Calculators:

[www.ibrinfo.org](http://www.ibrinfo.org) or [www.studentloans.gov](http://www.studentloans.gov)

# PAYE & IBR Qualification

## Partial Financial Hardship (PFH)

**Standard Pmt.**  
**\$272/month**

>

**Income Payment**  
**\$94 (IBR) or**  
**\$62 (PAYE)**

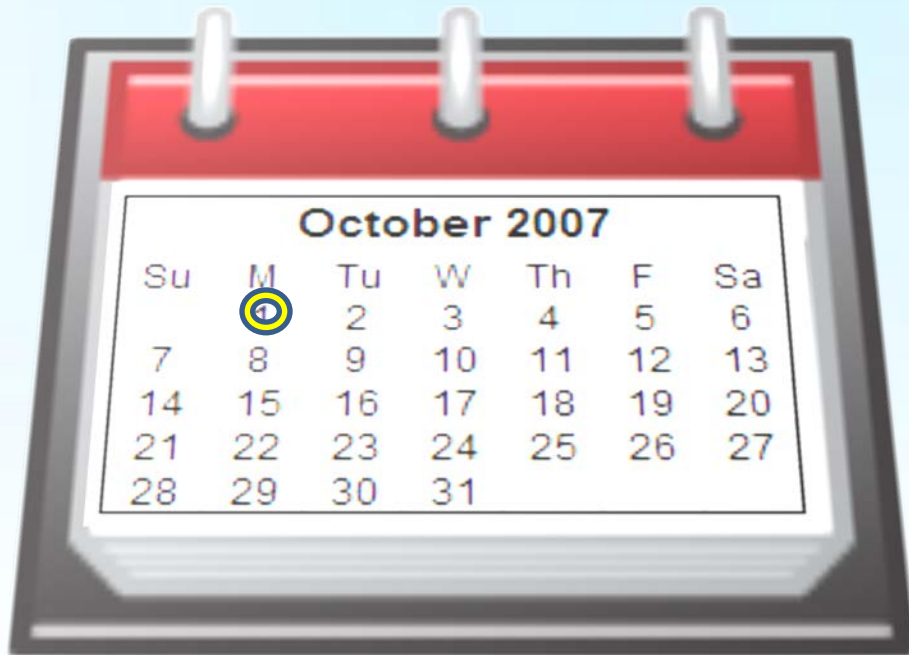
Must have PFH for first year in IBR or PAYE

- Can remain in IBR or PAYE in subsequent years, even without a PFH
- Must submit annual documentation
- Max payment is the Standard amount

*Single borrower with \$25,000 AGI and 1 in household.*

# PAYE Eligibility

Additional requirements for PAYE:



- No outstanding loans on October 1, 2007 (or paid-off all outstanding loans before receiving a new loan on or after 10/1/07)

AND

- Received a Direct Loan disbursement on/after October 1, 2011

# IBR & PAYE

## Pros

- Lower payments (low as \$0)
- Spouse's educational debt considered in calculation
- Possible interest subsidy benefit
- Cancellation provision:
  - IBR: 25 & PAYE: 20 years
- Eligible Payments towards Public Service Loan Forgiveness

## Cons

- Longer repayment periods
- Greater interest cost
- Annual documentation required
- May be required to pay income tax on amount forgiven

# Helpful Loan Repayment Sites

- [studentaid.ed.gov/repay-loans](http://studentaid.ed.gov/repay-loans)
- [finaid.org](http://finaid.org)
- [mappingyourfuture.org](http://mappingyourfuture.org)
- [ibrinfo.org](http://ibrinfo.org)
- [nslds.ed.gov](http://nslds.ed.gov)

# Federal Direct Consolidation Loans

- Combines several student or parent loans into one NEW loan
- Up to 30-year term
- Single monthly payment
- Fixed interest rate
- Repayment begins 60 days after loan is disbursed
- Eligible Loans:
  - FFELP, Direct Stafford, PLUS and Perkins, Health Professional Student Loans, Nursing Student Loans, HEAL, and Guaranteed Student Loans
- Loss of deferment, forbearances and forgiveness options
- Alternative (PRIVATE) Student loans cannot be included
- Parent PLUS loans of dependent students CANNOT be consolidated within a student's consolidation loan.



# Pros and Cons of Consolidation

## PROS

- Single monthly payment
- Lower monthly payment
- Adjust repayment plans
- Deferment & Forbearance clocks reset
- Resets repayment timeframe
- Fixed interest rate – possibly lower

## CONS

- Potential loss of grace period
- Extended repayment may increase total interest paid over lifetime of loan
- If a parent PLUS Loan is included, entire consolidation loan doesn't qualify for IBR or PAYE
- Loss of Perkins loan forgiveness
- Possible higher fixed interest rate
- Accrued interest on unsubsidized loans is capitalized at time of consolidation

# How and When to Consolidate

- How?
  - Apply at [www.studentloans.gov](http://www.studentloans.gov)
  - Loan Consolidation Call Center: 1-800-557-7392
- When?
  - As a student enters repayment or changes repayment approach
    - Avoid forfeiting grace period by consolidating too soon!
  - Must have at least one Direct or FFELP loan in grace or repayment to consolidate

**Note: Payments must be made until notified by servicer the loans have been paid off by your consolidation loan.**

# Loan Default Consequences

- Reported to credit bureau
- Loan becomes immediately due in full
- Ineligible to receive state or federal financial aid
- Federal and state income tax refunds withheld
- Wages may be garnished
- Assigned to collection agency or federal government
- Borrower responsible for attorneys fees and collection costs
- Suspension of professional license or certificate

# Debt Management Strategies

- Payment should not exceed your take home pay by more than 10%
- Pay the interest on unsubsidized loans while you are in school and during grace period
- Send separate, additional payments to reduce highest interest rate loan
- Utilize borrower benefits offered by your student loan lender (ex: automatic withdrawal) to reduce interest rate(s)
- Use your lender/servicer's website and sign-up for online account access
- Contact your lender/servicer if you experience financial difficulties or have questions about your repayment options

Deferment  
vs.  
Forbearance

Contact Loan Servicer for more details.

# Deferments

- Temporary postponement of principle and interest payments
- Government pays interest on subsidized and Perkins loans
- Unsubsidized and PLUS loans will accumulate interest
- Borrower Specific Entitlement
  - Must provide documentation to demonstrate eligibility

# Deferment Conditions

- Enrolled in school at least half-time
- Deployed or actively on Military Service
- Full-time in a graduate fellowship program
- Attending a rehabilitation training program
- Unemployed: must be actively seeking employment, but unable to find FT work in the U.S. – 3 year limit
- Experiencing an Economic Hardship: income less the larger of min. wage or 150% of poverty level of HH size and state of residence – 3 year limit

# Forbearances

- Temporary postpone or lower payments for up to 12 months
- May be eligible if you don't qualify for a deferment
- Interest will continue to accrue on all loans including subsidized



# Types of Forbearances

## Mandatory

- Serving in a medical or dental internship or residency
- Performing AmeriCorps service
- Performing service that qualifies for loan repayment by the Department of Defense
- Performing qualifying teacher loan forgiveness service

## Discretionary

- Experiencing a financial hardship
- In poor health
- Borrower must request forbearance and provide supporting documentation

# Calculating the Cost of a Deferment or Forbearance

[nelnet.com/All-Calculators/](http://nelnet.com/All-Calculators/)

# Public Service Loan Forgiveness

120 Months of:

Eligible Loans

+ Qualifying Payments

+ Qualifying Full Time Work

Public Service Loan Forgiveness

[www.myfedloan.org/pslf](http://www.myfedloan.org/pslf)

# PSLF

- Encourages individuals to enter and continue to work full-time in public service jobs
- Only Direct Loans are eligible
- May qualify for forgiveness of remaining DL balance after 120 qualifying payments while employed full-time by certain public service employers
- After 10 years (120 payments), left over balance is forgiven\*
- Application available in 2017
- Employment Certification Form Available NOW!
- FFELP or Perkins Loan Programs can be consolidated to take advantage of PSLF Program
- Payments made after 10/1/07 are eligible

# PSLF Considerations

- Only borrowers who are making reduced monthly payments through the IBR, PAYE, or ICR repayment plans will have a remaining balance after making 120 payments on a loan.
- Parents who received a Direct PLUS Loan may qualify for forgiveness of a PLUS loan, if the parent borrower is employed by a public service organization (additional conditions may apply).
- To consolidate a Federal Perkins Loan or Health Professions or Nursing Loans in to a Direct Consolidation loan, you must consolidate at least one FFELP loan or DL.
- The loan servicer for the PSLF Program is Fed Loan Servicing (PHEAA).
- REMEMBER, to know the type of loans you have borrowed, check your records on the NSLDS website at [www.nsls.ed.gov](http://www.nsls.ed.gov)

# PSLF Qualifying Employment

Any employment with a federal, state, or local government agency, entity, or organization or not-for-profit organization that provides certain specified public services and has been designated as tax-exempt by the Internal Revenue Service (IRS) under the Section 501(c)(3) of the Internal Revenue Code (IRC).

**NOTE:** Public services include emergency management, military service, public safety or law enforcement services; public health services; public education or public library services; school library or other school-based services; public interest law services; early childhood education; public service for individuals with disabilities and the elderly. Exclusions include labor unions or partisan political organizations.

# Borrow Wisely



*Only borrow what  
you need!*

You must  
pay it back with  
interest!

# Important Considerations

## Life:

- Family Obligations
- Financial Goals
- Career Goals

## Student Loans:

- Monthly Payment Amount
- Interest Cost
- Potential Forgiveness





# Review

- Carefully evaluate student loan repayment options and financial goals regularly
- Understand your loan portfolio
- Know the terms and conditions of each loan
- Choose the repayment plan that works for you and your circumstances
- Understand your deferment, forbearance, consolidation and loan forgiveness options
- Avoid default by working with your Servicer

Questions?