The Ins and Outs of Student Loan Repayment: Understanding the Options

Learning objectives

- You will learn to assist students to:
  - Take inventory of their federal student loans
  - Explore repayment plan available
  - Understand the basics of loan consolidation
  - Learn about deferment, forbearance, discharge, and forgiveness options
  - Know how to resolve a defaulted student loan

Taking inventory

Taking inventory

Where can students obtain information on their federal loans?

- National Student Loan Data System (NSLDS)
  - http://www.nslds.ed.gov/
- Provides federal student loan amounts, loan holders, and loan servicers
- FFEL and Direct Loan programs

Where can students obtain information on their private education loans?

- Refer to promissory note or credit report

During the grace period

What happens to their loans when students leave school?

- A FFELP or Direct loan will either:
  - Enter a 6-month grace period, or
  - In some cases, enter repayment
- A Perkins loan will either:
  - Enter a 9-month grace period, or
  - In some cases, enter a 6-month post-deferment grace period

During the grace period (cont'd.)

- A Grad PLUS loan will either:
  - Enter a 6-month deferment (for Direct PLUS loans first disbursed on/after July 1, 2008), or
  - In some cases, enter repayment
- A federal consolidation loan will enter repayment
- For a private education loan, contact the lender

During the grace period (cont'd.)

What should borrowers expect from their loan holder/servicer?

- Repayment disclosure notices
  - Outlines the terms of the loans borrowed
  - Provides the repayment options available
  - Establishes the first payment due date

During the grace period (cont'd.)

What do loan holders/servicers expect from borrowers?

- To select a repayment plan
- To make timely payments
  - There is no penalty for making prepayments
- To provide updated contact information whenever it changes
- To contact the loan holder whenever they are having difficulty managing repayment

Overview of repayment plans

What repayment plans are available?

- Standard
- Graduated
- Extended
- Income Driven Plans:
  - Income-sensitive (FFEL only)
  - Income-based (FFEL and Direct Loans)
  - Income-contingent (Direct Loans only)
  - Pay as You Earn (Direct Loans only)

Repayment plan comparison

- NEW repayment plan comparison calculator available at https://studentloans.gov/myDirectLoan/repaymentEstimatorLoginRedirect.action (sign in with your FSA PIN).
- Pre-populates with preliminary repayment plan eligibility and estimated repayment amounts for the Standard, Graduated, Extended Fixed, and/or Extended Graduated repayment plans
- Borrower enters additional information to obtain preliminary repayment plan eligibility information and estimated repayment amounts for the IBR, Pay As You Earn, and/or ICR repayment plans

How do the repayment plans work?

- Standard
  - 120 equal monthly payments/10 years
  - Least expensive way to repay a student loan
- Graduated
  - Payments increase over time
  - Still 10-year repayment term

How do the repayment plans work?

- Extended
  - For borrowers with more than $30,000 in debt (FFEL or Direct; cannot be combined)
  - Up to 25 years to repay loan
- Income-sensitive (FFEL only)
  - Based on expected gross monthly income
  - Adjusted annually

How do the repayment plans work?

- Income-driven repayment plans with a forgiveness component
  - Income-based (IBR)
  - Income-contingent (ICR)
  - Pay as You Earn (PAYE)

How do the repayment plans work?

Criteria	IBR	Pay as You Earn	ICR
Who qualifies	FFELP and Direct Loan borrowers who have a partial financial hardship (PFH)	"New"* borrowers who have a PFH	Direct Loan borrowers
Eligible loans	FFELP and Direct Loans <u>except</u>: - Defaulted loans - Parent PLUS loans - Consolidation loans that repaid parent PLUS loans	Direct Loans <u>except</u>: - Defaulted loans - Parent PLUS loans - Consolidation loans that repaid parent PLUS loans	Direct Loans <u>except</u>: - Defaulted loans - Parent PLUS loans - Consolidation loans that repaid parent PLUS loans made before 10/1/2006

How do the repayment plans work?

- For purposes of PAYE, a “New” borrower is one who:
  - Has no outstanding balance on a Direct or FFELP loan as of 10/1/2007, or has no outstanding balance on a Direct or FFELP loan when he or she obtains a new loan on/after 10/1/2007

AND

  - Receives a disbursement of a Direct Subsidized or Unsubsidized Stafford, or Grad PLUS loan on or after 10/1/2011; or receives a Direct Consolidation Loan based on an application received on/after 10/1/2011

How do the repayment plans work?

IBR and PAYE, partial financial hardship (PFH)

Borrower's annual payment amount using the standard 10-year repayment plan ÷ 12	>	15% (for IBR) or 10% (for PAYE) of borrower's (Adjusted Gross Income – 150% of poverty line amount) ÷ 12

- Based on income and family size

How do the repayment plans work?

Under ICR, no PFH requirement

- Under ICR, borrower's monthly payment is the lesser of:
  - 20% of discretionary income (monthly payment based only on income)

OR

  - 12-year standard repayment schedule multiplied by income percentage factor (monthly payment based on loan debt and income)

For more on income percentage factors in ICR, see Federal Register available at: https://federalregister.gov/a/2012-12420

How do the repayment plans work?

Under IBR and PAYE

- Payment less than $5.00 = $0 payment due
- Payment between $5.00 and $10.00 = $10.00 payment due
- Payment greater than $10.00 = exact amount calculated

Under ICR

- Payment of $0 = $0 payment due
- Payment greater than $0 up to $5.00 = $5.00 payment due
- Payment greater than $5.00 = exact amount calculated

How do the repayment plans work?

Temporary interest subsidy under IBR and PAYE only

- When monthly payment does not cover accruing interest on subsidized loans (paid by ED)
- Limited to **first three consecutive years** of repayment:
  - Includes periods of deferment/forbearance, except during periods of economic hardship deferment
  - Regardless of whether borrower changes from IBR to PAYE, or vice versa
- Borrower must pay all interest on *unsubsidized* loans

How do the repayment plans work?

Factors for borrowers to consider:

- Repayment can extend beyond 10 years
- Annual evaluation may result in monthly payment going up or down depending on change in annual income and/or family size
- Borrower can change repayment plan, but could have consequences
- Borrower can elect to remain in IBR or PAYE even when he or she no longer has a PFH

Loan forgiveness

- All three income-driven plans provide for forgiveness:
  - Under ICR and IBR, remaining balance forgiven after 25 years of qualifying payments
  - Under PAYE, remaining balance forgiven after 20 years of qualifying payments
- Under current IRS rules, the forgiven amount is considered taxable income

ICR, IBR, and PAYE comparison

Billy Borrower example:

- Is single with no dependents
- Lives in Florida
- Has an AGI of $35,000 and
- Has $50,000 in Direct Loan debt ($23,000 of which is subsidized), all of which has a 6.8% interest rate

**Assumes a 5% increase in Billy's income each year and a 3% annual increase in the poverty guidelines.*

Source: 2012 FSA Conference

ICR, IBR, and PAYE comparison

	ICR	IBR	PAYE
Initial Payment	$397.17	$228.06	$152.04
Final Payment	$535.23	$575.40	$492.19
Time in Repayment	13 years, 8 months	20 years, 2 months	20 years
Total Paid	$78,444.28	$101,673.34	$70,709.53
Forgiveness	$0	$0	$44,979.06

For comparison:

	10-year Standard	Extended & Consolidation Standard
Payment	$575.40	$347.04
Time in Repayment	10 years	25 years
Total Paid	$69,037.44	$104,080.83

Source: 2012 FSA Conference

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Income-driven plans application process

Borrowers may apply by completing either:

- Paper application available with the loan holder
- Electronic IBR/Pay As You Earn/ICR application on studentloans.gov website

The basics of consolidation

Consolidation overview

- Consolidation enables a borrower to bundle one or more federal student loans into a single new loan
- Consolidating loan holder pays off the outstanding balances of the loans included in the consolidation
- Same repayment plan options (except ISR)
- No fees

Consolidation eligibility

Who can consolidate?

- Any federal student loan borrower, including:
  - Borrowers with student loans
  - Borrowers with student and parent loans

Consolidation eligibility

How does a borrower qualify?

- Borrower must be in your grace period or in repayment on each loan being consolidated
- Borrower can still obtain a Consolidation loan if delinquent or in default on one or more existing loans

Consolidation eligibility

What loans may be consolidated?

- Federal Family Education Loans
- Federal Direct Loans
- Federal Perkins Loans
- Health Professions Student Loans
- Nursing Student Loans
- Health Education Assistance Loans

Consolidation eligibility

What loans may *not* be consolidated?

- Private or state education loans
- Other consumer debt
- Private consolidation loans
  - Do not offer the same advantages (i.e., repayment options, deferments, etc.) as a federal consolidation loan
  - Interest rate will be credit-based and likely higher than a federal consolidation loan

Consolidation eligibility

Can a borrower ever "reconsolidate"?

- Generally, no
- Exceptions for:
  - Consolidating an existing Consolidation loan with another loan outside the Consolidation loan
  - ICR
  - Public Service Loan Forgiveness

Consolidation interest rate

How is the interest rate calculated?

- It is the weighted average of interest rates on loans being consolidated, rounded up to nearest 1/8 of a percent, capped at 8.25%

Factors to consider

- Convenience of one payment by bringing together loans with multiple loan holders
- “May” be able to lock in a more favorable interest rate
- Lower loan payments by lengthening repayment period

Maximum repayment periods for Consolidation loans

Sum of Consolidation loan balance plus balances of other education loans	Maximum repayment period
Less than $7,500	10 years
$7,500 or more, but less than $10,000	12 years
$10,000 or more, but less than $20,000	15 years
$20,000 or more, but less than $40,000	20 years
$40,000 or more, but less than $60,000	25 years
$60,000 or more	30 years

Factors to consider

- May lose some or all of grace period
- May lose certain borrower benefits
  - Federal Perkins Loans lose their deferment subsidy and cancellation eligibility when consolidated
- May increase total cost of loan
  - If repayment period is longer, borrower will pay more interest

Total loan costs based on repayment length

A $100,000 Consolidation loan @ 6.0% interest rate			
Repaid over	Monthly payment	Total amount paid	Total interest paid
10 years	$1,110.21	$133,224.60	$33,224.60
15 years	$843.86	$151,894.23	$51,894.23
20 years	$716.43	$171,943.45	$71,943.45
30 years	$599.55	$215,838.19	$115,838.19

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Loan consolidation calculator and application

At loanconsolidation.ed.gov

- For calculator, first visit NSLDS to determine loan types, amounts, and current interest rates
- If borrower is still in grace period, he/she should provide grace end date
  - ED will put application on hold and start processing it within 45 days of the grace period end date

Deferment, forbearance, discharge, and forgiveness options

Deferment

- A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal
- Borrower is still liable for all interest that accrues on unsubsidized loan
- There are many deferments available to borrowers of any loan type, such as:
  - In-school, economic hardship, unemployment, military

Forbearance

- A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments
- Borrower is liable for all interest that accrues on the loans, even subsidized loans

Loan discharge

- The release from all or a portion of borrower’s loan obligation
- Generally due to circumstances beyond borrower’s control
- Types of FFEL and Direct loan discharges
  - Total and Permanent Disability
  - Death
  - Unpaid Refund
  - False certification by the school
  - False certification due to identity theft
  - Closed School
  - Parents and spouses of September 11, 2001, victims
  - Bankruptcy

Loan forgiveness

- The release from all or a portion of borrower's loan obligation
- Generally due to employment in a public service field
- FFEL/Direct Loan forgiveness programs available for
  - Teachers
  - Public service

Public Service Loan Forgiveness (PSLF)

- Outstanding balance of principal and accrued interest forgiven after borrower makes 120 monthly payments after 10/1/2007 under one of the following types of repayment plans:
  - Standard (10 yr term)*
  - Income-based
  - Income-contingent
  - Pay As You Earn

PSLF eligibility criteria

- Available for Direct Loan borrowers (including Grad PLUS and Consolidation)
- The following types of federal loans can be consolidated into the Direct Loan program to take advantage of PSLF
  - Federal Family Education Loans
    - Subsidized and Unsubsidized Stafford loans
    - Federal PLUS loans
    - Federal Consolidation loans
  - Federal Perkins Loans
  - Certain Health Professional and Nursing Loans

PSLF eligibility criteria

- Borrower must be working full-time for a public service organization, for example:
  - Federal, state, or local government organization or agency
  - Public child or family service agency
  - Non-profit organization under Section 501(c)(3) of IRS code
  - A tribal college or university
  - AmeriCorps and Peace Corps

Other qualifying employment

- Private, non-profit, non tax-exempt organizations (those that are **not** under Section 501(c)(3) of IRS code) that provide certain specified public services such as:
  - Emergency management
  - Military service
  - Public safety or law enforcement services
  - Public health services
  - Public education or public library services
  - School library and other school-based services
  - Public interest law services
  - Early childhood education
  - Public service for individuals with disabilities and the elderly

Application process

- At studentaid.ed.gov:
  - Instructions for Completing Employment Certification for Public Service Loan Forgiveness
  - Employment Certification for Public Service Loan Forgiveness
- Application is still under development; first forgiveness will not occur until after 10/1/2017

PSLF borrower example

Without PSLF:

	ICR	IBR	Pay As You Earn
Time in Repayment	13 years, 8 months	20 years, 2 months	20 years
Total Paid	$78,444.28	$101,673.34	$70,709.53
Plan Forgiveness	$0	$0	$44,979.06

With PSLF:

	ICR	IBR	Pay As You Earn
Time in Repayment	10 years	10 years	10 years
Total Paid	$55,952.61	$37,222.34	$24,814.89
PSLF Amount	$19,858.58	$45,711.82	$57,189.97

Source: Department of Education; 2012 FSA Conference

Options after default

Options after default

What is default?

- Occurs after 270 days of delinquency
- Negative consequences include:
  - Administrative wage garnishment of income
  - Collection costs added to balance of loan
  - Credit reporting to all reporting agencies
  - Treasury offset program may apply federal refunds toward defaulted loan
  - Professional licenses may be withheld
  - Lottery winnings withheld

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Options after default

How can a borrower resolve a defaulted student loan?

- Make satisfactory repayment arrangements
- Consolidate the defaulted loan
- Rehabilitate the defaulted loan
- Pay the defaulted loan in full
- Receive a discharge on the defaulted loan

Resources

Helpful resources for borrowers

- **www.nslds.ed.gov**: view student loan portfolio
- **www.myedaccount.com**: manage student loan account online
- **https://studentloans.gov/myDirectLoan/repaymentEstimatorLoginRedirect.action:** borrower can compare repayment options
- **www.ibrinfo.org:** independent, nonprofit source of information about IBR

Helpful resources for borrowers

- **www.loanconsolidation.ed.gov**: apply for a Consolidation loan
- **http://studentaid.ed.gov/PORTALSWebApp/students/english/PSF.jsp#:** Public Service Loan Forgiveness
- **www.mymoney.gov:** financial literacy information

www.tgslc.org