Paying Back Your Student Loans

What We'll Cover

- Basics of repaying direct loans
- Repayment plan choices
- Resolving potential repayment problems

Graduating With Debt

The good news:

- You have a choice of repayment plans.
- Smart decisions help you reduce your costs.

The bad news:

- You must repay your student loans.
- There are serious consequences if you don’t.

What You Owe

Principal: The amount you borrowed

+

Interest: The charge for borrowing, calculated as a percentage of principal

=

Total Debt

Principal

Base Loan Amount (Total of all loans)

+

Capitalized Interest (Interest accrued and added to principal)

=

Principal

Track the amount due and your loan provider at studentaid.gov

Interest

- Interest rates are based on:
  - The type of loan (generally lower for **subsidized** than for **unsubsidized** loans)
  - The date of disbursement
- Interest accrues differently on different loans:
  - From **disbursement** of unsubsidized loans
  - During **grace period** of unsubsidized loans
  - During **grace period** of subsidized loans disbursed July 1, 2012 – July 1, 2014

Term

Term is the period of time you agree to take to repay. Often you have a choice:

A shorter term will:

- Require larger monthly payments
- Reduce the total cost of the loan

A longer term will:

- Require smaller monthly payments
- Increase the total cost of the loan

Weighing Choices

Elena **owes $20,000** in federal student loans and **earns $29,500** a year in her job as an emergency medical technician (EMT). She's conflicted about whether to pay off her debt as fast as she can or stretch out the payments. So, she lists the pros and cons of each choice.

Let's take a look and help her decide.

Comparing Repayment Periods

10-Year Repayment

Pros

+ Less interest, so lower overall cost

+ Possibility of loan forgiveness after 120 payments if any balance remains

Cons

- Larger monthly payments, so potential for repayment trouble

25-Year Repayment

Pros

+ Lower monthly payments, so less risk of repayment trouble

+ Possibility of substantial loan forgiveness after 120 payments

Cons

- More interest so higher overall costs

Calculate your own repayment at www.studentaid.ed.gov/repay-loans.

Pop Quiz

1. Why does a subsidized loan cost less to repay?
   a) It has a shorter term.
   b) It accrues less interest, and can have a lower interest rate.
   c) The principal is less.
2. What happens when interest is capitalized?
   a) It is forgiven.
   b) It has to be repaid first.
   c) It is added to the principal.
3. Which term requires the largest payments?
   a) A shorter term
   b) A longer term
   c) A fixed term

Repayment Schedule

Graduation → Grace Period → Repayment

Grace Period

- You don’t need to pay interest during the grace period.
- Unpaid interest after the grace period is added to the principal of:
  - All unsubsidized loans
  - Subsidized loans disbursed between July 1, 2012, and June 31, 2014
- Reduce your overall cost of borrowing by starting to pay sooner.

Choose a Repayment Plan

- 6 potential repayment plans
- Must qualify for certain plans, but requirements vary
- Usually can switch between plans
- No prepayment penalty on any of the plans

Standard Plan

- The default choice
- Least expensive option overall
- Fixed payments of combined principal and interest
- Term of up to 10 years
- Eligible repayment plan for the Public Service Loan Forgiveness Program
  - www.studentaid.ed.gov/repay-loans/forgiveness-cancellation/charts/public-service

Extended Plan

- Minimum of $30,000 in outstanding Direct or FFEL loans to qualify
- Payments may be fixed or graduated
- Term of up to 25 years
- Lower monthly payments, but higher loan cost overall

Graduated Plan

- Monthly payment determined by loan balance and length of repayment
- Terms of up to 10 years or 25 years
- Lower monthly payments in the beginning
- Monthly payment increases every two years

Income-Contingent Plan (ICR)

- Payments are calculated annually based on 20% of income, household size, and loan balance
- Interest not paid monthly will accrue
- Interest capitalization is capped at 10% of the original loan amount
- It's an eligible repayment plan for the Public Service Loan Forgiveness Program
- The remaining balance after 25 years of payments may be forgiven

Income-Based Plan (IBR)

- Must have partial financial hardship
- Subsidized loan interest accrual forgiven during first few years of repayment if not covered by the borrower’s payments
- Payments calculated annually based on 15% of income, household size, and loan balance
- Remaining balance after 25 years of payments may be forgiven
- Eligible repayment plan for the Public Service Loan Forgiveness program

Pay As You Earn Plan (PAYE)

- Eligible loans are those disbursed after Oct. 1, 2011.
- Payments are calculated annually based on 10% of income, household size, and loan balance.
- The remaining balance after 20 years of payments may be forgiven.

A Repayment Comparison

Alice and Bob each have $35,000 in loans with a 4.29% interest rate.

Alice	Bob
• Repays with a standard plan • Makes 120 payments of $359 • Total is $43,110	• Repays with a fixed extended plan • Makes 300 payments of $190 • Total is $57,212

Calculate your own repayment at www.studentaid.ed.gov/repay-loans.

Repayment Plan Review

All plans have **advantages** and **disadvantages**.

Consider alternatives if Standard plan payments are more than 10% of income:

- Income-based or Income-contingent plan, if you are likely to qualify for forgiveness
- Graduated plan if you expect substantial salary increases within a few years

Get more information at www.studentaid.ed.gov/repay-loans.

Making Payments

You repay the lender or servicer who bills you and administers your loan.

Find the lender or servicer at www.nslds.ed.gov using your FSA ID.

Automatic payments are deducted from your bank account:

- Ensures you never miss a payment or pay late

- May reduce your monthly interest accrual by 0.25%

Pop Quiz

1. Which repayment plan costs the least, given the same principal and interest rate?
   a) Income-contingent
   b) Graduated
   c) Standard
2. What is the disadvantage of a shorter term?
   a) Greater total loan cost
   b) Larger monthly payments
   c) Capitalized interest
3. Which repayment plan provides for loan forgiveness?
   a) Graduated
   b) Extended
   c) Income-based

Consolidation

You combine many loans into one loan with a weighted average interest rate

- Reasons to consolidate:
  - Easier to keep track of and manage payments
  - Term up to 30 years possible
- May cost more overall
- May lose eligibility for some possible benefits, such as cancellation and interest rate discounts

Public Service Loan Forgiveness

- After 10 years (120 months) of on-time payments in qualifying repayment plan:
  - Standard
  - ICR or PAYE
  - IBR
- If continuously employed full-time (at least 30 hrs/week) in a qualifying public service position

More information at www.studentaid.ed.gov

Deferment and Forbearance

Deferment

- Must apply and qualify
- May delay principal repayment up to 3 years
- With subsidized loans, interest does not accrue

Forbearance

- Must apply and qualify
- May postpone principal repayment up to 3 years
- Interest accrues on all loans

Student Loan Discharge

- When a loan is discharged, the obligation to repay is ended.
- The amount discharged ranges up to 100%.
- Specific eligibility requirements:
  - Death or total and permanent disability
  - Closing of the school a student attended
  - False certification by school, or identity theft
  - Teacher loan forgiveness
  - Public service loan forgiveness

Default

- If you miss loan payments, you are **delinquent.**
- If you are delinquent for 270 days, you are in **default.**
- Contact your lender or servicer to explain before time is up—the sooner the better.
- Explore options to resolve the problem.

Consequences of Default

- Ineligible for deferment or forbearance
- Ineligible for more federal loans
- Additional accrued interest and other fees
- Damaged credit report and credit score
- Wages garnished and tax refunds withheld
- An ever-growing debt that you must repay
- Little or no access to bankruptcy protection

Pop Quiz

1. If you have 6 or 7 direct federal loans, you may want to consider:
   a) A loan deferment
   b) A consolidated loan
   c) An income-based loan
2. Default can result in:
   a) Bankruptcy
   b) Deferment
   c) Tax refunds being withheld
3. Which of the following wipes out your student loan debt?
   a) Discharge
   b) Bankruptcy
   c) Forbearance

Minimize the Cost of Borrowing

- Begin paying interest on unsubsidized loans while still in school.
- Pay interest during the **grace period.**
- Choose a **repayment plan** carefully and switch if it makes sense.
- Set up an automatic payment plan to:
  - Avoid missing payments
  - Qualify for a rate discount

Resolve Problems

- If you are having trouble paying, apply to switch to a more fitting repayment plan.
- Apply for deferment or forbearance.
- Contact your lender or servicer before you default.
- Cure default through repayment, rehabilitation, or consolidation.

Stay on Top of What You Owe

- Be familiar with your Master Promissory Note (MPN)
- Keep track of what you owe at www.nslds.ed.gov
- Stay in touch with your lender or servicer
- Use www.studentaid.ed.gov as a resource

THANKS FOR ATTENDING OUR WORKSHOP!