



LOAN REPAYMENT STRATEGIES

**Be Ready!
Develop a Plan!**

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Majority of students ...

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**... now graduate with an
EDUCATIONAL MORTGAGE**

Essentially, you've financed an important investment in yourself

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You can be successful ...

- ❑ In repaying this “mortgage”
- ❑ Without having to sacrifice your career aspirations or the achievement of your other financial and personal goals

But, you must make smart, strategic, and well-informed decisions about how you plan for and manage repayment of your federal student loans!

You have CHOICES

Decisions to be made in repayment ...

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- ❑ Should you refinance your existing federal student loans with a private loan if you can get a lower interest rate?
- ❑ Should you consolidate your existing federal student loans in the Federal Consolidation Loan program?
- ❑ What payment plan should you choose to repay your federal student loans?
- ❑ Should you pay off your federal student loans as fast as possible?



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Normally with debt ...

*... you're "boxed into a corner"
from a financial perspective!*

Why are you in that “corner”?

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- ❑ Payments are “locked-in” and based on the amount you owe—your DEBT—***not on your ability to repay that debt.***

As such, DEBT puts you at RISK and LIMITS your options, financially.

- ❑ Puts you at RISK of having to miss the payment due to loss of income or an unexpected expense.
- ❑ LIMITS your ability to pursue the job you want, invest for retirement, buy a house, etc.



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Federal student loans are unique

*... you don't need to feel
"boxed" into that corner!*

Federal student loan repayment offers choice, flexibility and safety

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- ❑ Payments can be based on 10% of your household's "discretionary income"
- ❑ Payment relief options are available
- ❑ Loan forgiveness may be available
 - ❑ Income-Driven Repayment (IDR) plans – Balance forgiven after 20-25 years of qualifying IDR payments (*taxable benefit*)
 - ❑ Public Service Loan Forgiveness (PSLF) – Balance on Direct Loans forgiven after 120 months of qualifying public service (*not taxable*)—*but beware of the risks*

In essence, federal student loans offer a financial safety net that all other debt lacks, as such they need not "*box you into a corner*" financially!



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Making informed decisions ...

*... also requires understanding
the total "cost" of debt*

Debt always has two (2) costs ...

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□ Direct Cost

- Interest
- Fees

□ Opportunity Cost

- Value of what you are forgoing to repay the debt
- ***In essence, the interest you are losing***

Another factor to consider ...

Simple vs. Compounding Interest

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❑ Simple interest

- ❑ Increases in a LINEAR manner over time because it is not being “capitalized” (*not being added to the principal balance*)
- ❑ Interest generally accrues on your federal student loans as “**SIMPLE**” interest during repayment

❑ Compound interest

- ❑ Increases EXPONENTIALLY over time because it is capitalized at regular time intervals
- ❑ Interest is compounding (perhaps as often as daily) on your INVESTMENTS and so your money is GROWING exponentially!

As such, you potentially could end up with more money (not less) by investing your extra funds rather than paying off your federal loans faster!



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So what should you do ...

*... when "mapping your course"
for loan repayment?*

Should you refinance with a private loan?

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You have the right to do so, BUT:

- ❑ You will lose the choice, **flexibility** and **safety** provided by federal student loans including the income-driven repayment options.
- ❑ You may lower the **direct cost**, but will increase the **opportunity cost** (*likely will have to repay the private loan faster, and therefore, have a higher monthly payment to qualify for the lower interest rate*).

As such, you may be giving up more than you are gaining if you borrow a private loan – so exercise caution – be fully informed – investigate ALL the differences – don't focus solely on the interest rate!

Should you “consolidate” your federal student loans?

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- ❑ Consolidation is the *refinancing* of federal student loan debt—not the **combining** of debt—you are borrowing a **new** Federal Direct Consolidation Loan
- ❑ May be helpful – particularly if you have non-DIRECT federal student loans – not likely necessary if you only have DIRECT Loans (*cannot consolidate private loans*)
- ❑ All federal student loans are eligible
- ❑ Does NOT lower the cost of the debt
 - ❑ Interest rate is fixed--equals weighted average of interest rates of loans being consolidated, but then it is rounded up to nearest 1/8th percent
- ❑ Apply for the new loan online at: StudentLoans.gov

What payment plan should you choose?

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Be strategic, consider:

- ❑ Choosing the payment plan that offers the **LOWEST** scheduled monthly payment – *you can always pay extra (you also can change plans if your circumstances change)*

Why?

- ❑ This provides **maximum cash flow flexibility** so you can:
 - ❑ Maximize amount you prepay in a targeted way at your most expensive debt (e.g., credit cards, private student loans, Grad PLUS loans)
 - AND/OR
 - ❑ Allocate “extra cash” for other purposes (e.g., investing/savings)

Should you pay off your federal loans as fast as possible?

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You have the right to do so—there are no prepayment penalties.

- ❑ But, faster may not be better when repaying your federal student loans.

You may want to consider:

- ❑ Taking longer to repay your Federal Student Loans.

Why?

- ❑ You may have better uses for your “extra” funds in terms of “**opportunity cost.**”

How will you use your money?

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You must decide how to allocate your money across four “***buckets***” ...



The “Future” Bucket ...

A “bucket” you’ve been ignoring!

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*Financial planners suggest you should “Pay Yourself FIRST” using at least **20%** of your gross monthly income on ...*

- ❑ Investing for **retirement**
 - ❑ Minimum of 10% of your gross monthly income
- ❑ Saving for a “rainy day” – the **emergency fund**
 - ❑ Minimum of 6-9 months of your monthly living expenses
- ❑ Saving for the down payment/closing costs for a **home**
 - ❑ Minimum of 10% of purchase price
- ❑ Saving for your **children’s education**
 - ❑ Minimum needed uncertain--*may need to start paying for children’s education much sooner than expected (e.g., elementary school)*

Paying off your federal student loans faster ...

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- ❑ Reduces **the Direct Cost** by lowering total interest expense on the debt

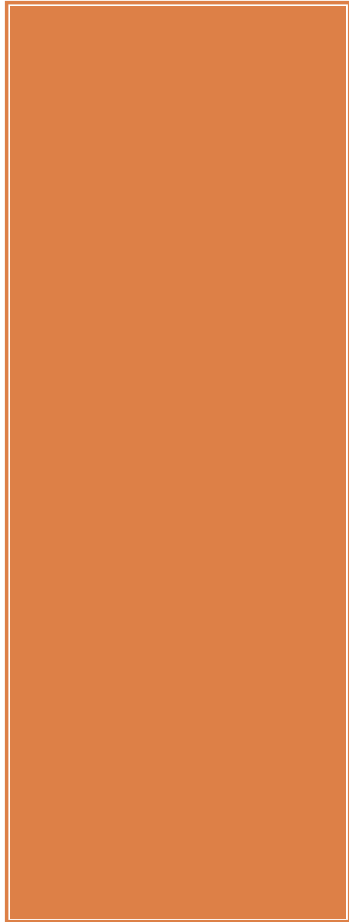
BUT, it simultaneously

- ❑ Increases **the Opportunity Cost** because it diverts more of your current income from investing/saving in the “FUTURE bucket”

*Therefore, when repaying your federal student loans, you need to evaluate this tradeoff between the **DIRECT** and **OPPORTUNITY** costs as well as the difference in **SIMPLE** vs. **COMPOUNDING** interest so that you make an informed decision that meets all your financial needs!*

Payment Plans

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Plans fall into two (2) categories (*Subsidized, Unsubsidized, PLUS, Consolidation Loans*)

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Installment Plans

Payment based on amount of DEBT

- Plans
 - Standard
 - Graduated
 - Extended (*fixed*)
 - Extended (*graduated*)

Income Plans

Payment based on INCOME

- Plans
 - Revised Pay As You Earn (REPAYE)
 - Pay As You Earn (PAYE)
 - Income-Based Repayment (IBR) – *2 options*
 - Income-Contingent Repayment (ICR)

Installment Plans

Payments Based on *DEBT*

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Plans	Payment Structure	Term
Standard (<i>default plan</i>)	Fixed payments (<i>do not change</i>)	10 years* <i>*(up to 30 years on Consolidation Loans)</i>
Graduated	Payments increase in graduated steps every 2 years	10 years* <i>*(up to 30 years on Consolidation Loans)</i>
Extended** (<i>fixed</i>)	Fixed payments (<i>do not change</i>)	25 years
Extended** (<i>graduated</i>)	Payments increase in graduated steps every 2 years <i>Interest-only payments for first 2 years</i>	25 years

- ❑ Payments are based on an “**amortization schedule**”—
must fully repay all the debt in the maximum repayment term of the loan
- ❑ Monthly payment must at least equal the accrued interest each month—
“negative amortization” is NOT permitted in these plans

** Must have more than \$30,000 in Direct/FFEL Loans to use **EXTENDED** plans to repay Direct/FFEL Loans

Income-Driven Repayment (IDR)

Payments Based on *INCOME*

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- ❑ Payments are based on a percentage of your household's “**DISCRETIONARY**” income, i.e., that portion of your household's Adjusted Gross Income (AGI) that exceeds **150%** of the **federal poverty guideline** for your family size and state of residence
- ❑ Household AGI always includes your income; and if you are married it also includes your spouse's income if you file a **JOINT** federal tax return (*excludes spouse's income if you file separate federal tax returns in PAYE/IBR*)
- ❑ Payments are adjusted every 12 months based on how your AGI and family size change
- ❑ Monthly payments can be less than the accrued interest each month (“negative amortization” is permitted)

IDR Plans

Payments Based on *INCOME*

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Plans	% of Disc. Income	New Borrower	PFH Required	Forgiveness <i>(taxable benefit)</i>	Subsidy
REPAYE*	10%	NO	NO	25 yrs <i>(UG&Grad)</i>	All loans <i>(No time limit)</i>
PAYE*	10%	YES <i>(as of 10/1/2007)</i>	YES <i>(payment capped)</i>	20 yrs	Subsidized loans only <i>(up to 3 yrs)</i>
IBR <i>for New Borrowers</i>	10%	YES <i>(as of 7/1/2014)</i>	YES <i>(payment capped)</i>	20 yrs	Subsidized loans only <i>(up to 3 yrs)</i>
IBR	15%	NO	YES <i>(payment capped)</i>	25 yrs	Subsidized loans only <i>(up to 3 yrs)</i>
ICR*	20%	NO	NO	25 yrs	NO

*** Only Federal DIRECT Loans are eligible for this plan** *(FFEL loans must be consolidated to be eligible for REPAYE, PAYE and ICR)*

Interest Subsidy Benefit

Subsidy during “negative amortization”

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Plans	Subsidized Loans	Unsubsidized Loans
REPAYE	100% of negative amortization during first 3 years in plan; 50% thereafter	50% of negative amortization during all years in plan
PAYE	100% of negative amortization during first 3 years in plan; none thereafter	NONE
IBR <i>for New Borrowers</i>	100% of negative amortization during first 3 years in plan; none thereafter	NONE
IBR	100% of negative amortization during first 3 years in plan; none thereafter	NONE
ICR	NONE	NONE

Interest Subsidy—REPAYE

Federal Student Loan Debt = \$110,000 (all unsub) (Weighted avg. interest rate = 6.2%)

Household AGI = see below (Household Size = 1; State = CA; 2019 Poverty Guidelines)

(Estimates calculated using “Repayment Estimator” at: [StudentLoans.gov](https://studentloans.gov))

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Item	AGI = \$50,000	AGI = \$75,000
Interest accrued/month (“ <i>Extended Graduated</i> ” plan)	\$568	\$568
“REPAYE” monthly payment	\$261	\$469
Negative amortization (unpaid interest)	\$307	\$99
50% subsidy of negative amortization	\$153.50	\$49.50
Annual subsidy	\$1,842	\$594

Sample INITIAL Monthly Payments*

REPAYE/PAYE (10% of AGI) vs. STANDARD (10-year, fixed payment) plan

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REPAYE and PAYE <i>[10% of "Discretionary Income"]</i>				STANDARD <i>[10 year, fixed payment, 6.3% int. rate]</i>	
DISC. INC.	HH Size = 1	HH Size = 2	HH Size = 3	TOTAL LOAN DEBT	Payment
\$0	\$0	\$0	\$0	\$25,000	\$281
\$25,000	\$52	\$0	\$0	\$50,000	\$563
\$50,000	\$261	\$205	\$150	\$75,000	\$844
\$75,000	\$469	\$414	\$358	\$100,000	\$1,125
\$100,000	\$677	\$622	\$567	\$125,000	\$1,407
\$125,000	\$886	\$830	\$775	\$150,000	\$1,688
\$150,000	\$1,094	\$1,039	\$983	\$175,000	\$1,969
\$175,000	\$1,302	\$1,247	\$1,192	\$200,000	\$2,251
\$200,000	\$1,511	\$1,455	\$1,400	\$225,000	\$2,532
\$225,000	\$1,719	\$1,664	\$1,608	\$250,000	\$2,813
\$250,000	\$1,927	\$1,872	\$1,817	\$275,000	\$3,095

* REPAYE/PAYE monthly payment estimates based on 2019 federal poverty guideline for 48 states (assumes PFH exists for PAYE)



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Doing the math!

How much will you have
to pay each month?

Estimate Your Monthly Payments “Repayment Estimator” at: [StudentLoans.gov](https://studentloans.gov)

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To “Log In” enter your FSA ID:

- Username
- Password

Then select the “Repayment Estimator” from the tools and calculators that are available on the Welcome Screen.

(Estimates are for Direct/FFEL loans only)

The image shows the navigation menu of the StudentLoans.gov website. It consists of four main categories, each with a green circular icon and a dropdown arrow: "Undergraduate Students" (person icon), "Graduate/Professional Students" (graduation cap icon), "Parent Borrowers" (family icon), and "Repayment & Consolidation" (calculator icon). Below the "Undergraduate Students" category, there is a text block: "The first step in getting student aid is completing the Free Application for Federal Student Aid (FAFSA®) at www.FAFSA.gov. You must do this every year." Below the "Graduate/Professional Students" category, there is a list of links: "Complete Entrance Counseling", "Complete Loan Agreement for a Subsidized/Unsubsidized Loan (MPN)", "Complete Financial Awareness Counseling", "Complete Exit Counseling", "Use the Repayment Estimator", "Complete TEACH Grant Counseling", and "Complete TEACH Grant Agreement to Serve". To the right of this list is a video thumbnail with a play button icon and the text "How To Create An FSA ID".

Repayment Estimator

Additional Comments

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- Use caution comparing “**Total Paid**” estimates for the different plans
 - “**Total Paid**” estimates do not take into account the TIME-VALUE OF MONEY (i.e., inflation)—they are NOT Present Value (PV) estimates nor do they account for OPPORTUNITY COST
 - Therefore, comparing “**Total Paid**” amounts over different repayment terms (e.g., 10 years vs. 25 years) is **NOT** an “apples to apples” comparison

- “**Final Payment,**” “**Months in Repayment,**” “**Total Paid,**” and “**Amount Forgiven**” estimates for the IDR plans are based on two ***(unrealistic)*** assumptions
 - **Household AGI** is assumed to increase annually by 5%
 - Family size is assumed to remain unchanged during repayment

- Statute requires that your “**Adjusted Gross Income**” (**AGI**) from your prior year’s federal tax return be used by the servicer when calculating your monthly payments for IDR plans unless you indicate your income has “changed” significantly” (i.e., declined) since you filed your last return.



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Public service is possible ...

... even if you have federal
student loan debt!

Public service can be affordable ...

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Federal Student Loan Borrowers have:

- ❑ Loan forgiveness options (e.g., PSLF)
- ❑ Income-driven repayment (IDR) plans

You also may qualify for funding from a Loan Repayment Assistance Program (LRAP) offered by your employer.

What is PSLF?

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Public Service Loan Forgiveness (PSLF) is a repayment benefit (not a payment plan) that provides:

- ❑ tax-free forgiveness of any outstanding balance on a Federal Direct Loan,
- ❑ once you complete 120 months of “qualifying public service” (*months do not need to be consecutive*).

What constitutes a month of “qualifying public service?”

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You must satisfy *two (2)* conditions during the month for that month to count:

1. Employed as a paid employee (*generally, not a contractor or volunteer*) of a qualifying public service organization (i.e., government agency, private non-profit) during the entire month,
AND
2. Make an on-time “scheduled” qualifying payment (*any IDR plan*) on your qualifying Direct Loans.

Refer to: [StudentAid.gov/publicservice](https://studentaid.gov/publicservice); or contact **FedLoan Servicing** at 1-855-265-4038 for more information about PSLF.

Qualifying Employment

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You must be a paid employee (cannot be a contractor or a volunteer) of:

- ❑ Government (federal, state, local, tribal) agency with jurisdiction somewhere in U.S.;
- ❑ 501(c)(3) organization exempt from taxation under section 501(a) of the IRS Code of 1986; OR
- ❑ Other qualifying private nonprofit that provides one or more of the following public services:
 - ❑ Emergency management, military service, public safety, law enforcement, public interest law services, early childhood education, public service for individuals with disabilities and the elderly, public health, public education, public library services, school library or other school-based services

Qualifying Employment

Additional comments ...

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- ❑ What matters is who you work for, not what you do as long as your job responsibilities do not involve religious instruction, conducting worship services or proselytizing
- ❑ Physical location of your employment does not matter; you can be working outside the US for a qualifying public service employer
- ❑ The 120 months of qualifying employment do not have to be with the same public service employer

Refer to the FAQs at: [StudentAid.gov/publicservice](https://studentaid.gov/publicservice); or contact **FedLoan Servicing** at **1-855-265-4038** for more information about qualifying employment

Suggested Steps to Participate in PSLF

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- ❑ Consolidate any non-Direct Federal Student Loans in the Federal Direct Loan Program at: StudentLoans.gov
- ❑ Use **REPAYE, PAYE or IBR** to repay your Direct loan(s)
- ❑ Make 120 payments (on-time) while employed by a qualifying public service employer – **use “AUTO-PAY”**
- ❑ Keep good records regarding all qualifying employment
- ❑ Track your progress by submitting: “Employment Certification for PSLF” form available at: StudentAid.gov/publicservice
- ❑ Apply for PSLF after 120 months of qualifying public service have been completed



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Be strategic in repayment ...

... leverage the unique nature of federal student loans!

Develop Your “Action Plan”

4 Steps

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1. Take stock of your loan portfolio
 - Review loan summary/details at:
[NSLDS.ed.gov](https://www.nslds.ed.gov)
2. Determine when repayment begins/resumes
3. Choose your payment plan
4. Evaluate if “**Consolidation**” is beneficial

Remember, you must repay all that you owe!

When making decisions about student loan repayment ...

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Consider a leveraged or balanced approach ...

- ❑ Weigh the importance of minimizing the interest cost of your loans with your need to save/invest for the future
- ❑ Beware of financial risks
 - ❑ **Uncertainty of your future income**
 - ❑ **Uncertainty of your future expenses**
- ❑ Leverage the flexibility, choice and safety provided with federal student loans so that you successfully:
 - ❑ **Repay your debt.** AND
 - ❑ **Achieve your other financial goals more quickly**

Direct Loan payment tips ...

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❑ **SINGLE statement billing**

- ❑ You should receive a “combined/itemized/consolidated” monthly bill and have one monthly payment for your DIRECT Loans

❑ **Payments can be made using:**

- ❑ Check or money order
- ❑ Online electronic payment at loan servicer’s website
- ❑ “Auto-Pay” (*contact your loan servicer to apply*)
 - Saves time
 - Saves money -- ***interest rate reduced by 0.25%***

Payment relief is available!

Important “safety nets”

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You should never have to miss a payment (or default) on a federal student loan – payment relief should be available to you – but you have to ask for it ...

- ❑ Postpone repayment temporarily using:
 - ❑ Deferment
 - ❑ Forbearance – *also could temporarily reduce monthly payments*

- ❑ Adjust your monthly payment:
 - ❑ Income-Driven Repayment (IDR) plans, e.g., REPAYE, PAYE, IBR, may provide opportunity to reduce monthly payment when income decreases

**Contact your loan servicer for more information,
and to request payment relief, if needed!**

Who is your loan servicer?

Federal Direct Loans

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- Direct Loans are “serviced” by the following contractors (*Spring 2018*):

CornerStone	HESC/Edfinancial
Fedloan Servicing (PHEAA)	MOHELA
Granite State - GSMR	Navient
Great Lakes Educational Loan Services, Inc.	Nelnet
	OSLA Servicing

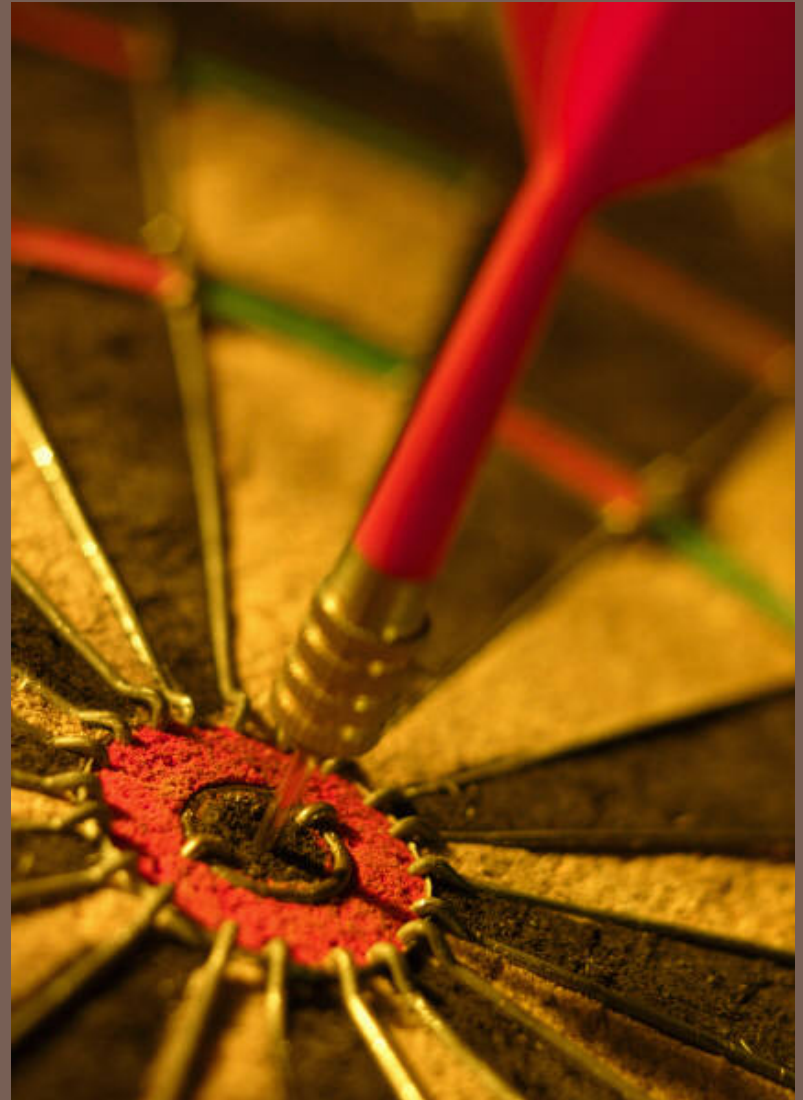
- ED may transfer your Direct Loans to another servicer or alter the servicing process in the future—***you will be notified!***
- Check “loan details” screen on [NSLDS.ed.gov](https://www.nsls.ed.gov) to verify contact information for the loan servicer for each of your federal loans

For more information ...

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- ❑ Contact your loan servicer(s)
- ❑ Online resources:
 - ❑ Federal student loan repayment: StudentAid.gov
 - ❑ Federal loan “Repayment Estimator”: StudentLoans.gov
 - ❑ Federal Direct Consolidation Loans: StudentLoans.gov
 - ❑ Income-Driven Repayment (IDR) Plans: StudentLoans.gov
 - ❑ National Student Loan Data System: NSLDS.ed.gov
 - ❑ Public Service Loan Forgiveness Program (PSLF):
 - Online at: StudentAid.gov/PublicService
 - Call Fedloan Servicing at: **1-855-265-4038**
 - ❑ Free annual credit report: AnnualCreditReport.com

BE STRATEGIC:
**Take Charge of
Loan Repayment!**



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