



LOAN REPAYMENT STRATEGIES

- ✓ Be Ready
- ✓ Develop a Plan

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1

Majority of students ...

2



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

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Essentially, you've financed an important investment in yourself

3

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!

3

You have CHOICES

Decisions to be made in repayment ...

4

- ❑ 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!

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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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7 **With federal student loans...**

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

7

Federal student loans offer ...

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Choice

Flexibility

Safety

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How are federal student loans different?

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The *IMPORTANT* difference:

- Payments can be based on your **income** rather than on the **amount of your debt**
 - Payments can be equal to **10%** of your **household's discretionary income** – therefore, you could have **90%** of your household's income for everything else!

As such, federal student loans need not "box you into a corner financially" – they provide financial safeguards that greatly reduce/minimize the **RISK and **FINANCIAL BARRIERS** you normally associate with having debt!**

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10 Making informed decisions ...

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

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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*

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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 both during school and in repayment
- **Compound interest**
 - Increases **EXPONENTIALLY** over time because it is being being capitalized (added to the principal balance)
 - Interest is compounding (perhaps as often as daily) on your INVESTMENTS and so your money is GROWING exponentially!

As such, you 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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13 So what should you do ...

... when *“mapping your course”* for loan repayment?

13

What do you consider when making financial decisions?

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When making any financial decision, your financial objectives likely include:

- Making the best use of every dollar
- Minimizing your exposure to financial risk
- Successfully repaying your debt

These objectives should guide your decisions about how to manage repayment of your student loans – i.e., your “educational mortgage!”

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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 likely 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!

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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 are prepaying in a targeted way at your most expensive debt (e.g., credit cards, private student loans)
- AND/OR
- Allocate "extra cash" for other purposes (e.g., investing/savings)

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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."**

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How will you use your money?

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



18

The “Future” Bucket ... A “bucket” you cannot afford to ignore!

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

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Timing matters when earning compounding interest!

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Sooner is better!

- ❑ Mary started investing \$250/month at age 25 and continued doing so for the next 10 years until age 35. Then she stopped and just let the invested funds grow in her 401(k) for the next 30 years until age 65. She invested \$30,000 of her own money.
- ❑ John waited for 10 years (*perhaps because he opted to pay off his student loans more aggressively*). He started investing \$250/month at age 35 and continued doing so for the next 30 years until age 65. He invested \$90,000 of his own money but he started 10 years later than Mary.

Who had more money in their 401(k) at 65?

- ❑ **Mary would have the larger balance even though she invested only one-third as much of her own money – she started 10 years sooner than John!**

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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!

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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)

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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* <small>*up to 30 years on Consolidation Loans</small>
Graduated	Payments increase in graduated steps every 2 years	10 years* <small>*up to 30 years on Consolidation Loans</small>
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

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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*)
- **Family size** includes you, your spouse if married (even if you file taxes separately), your dependent children and any other dependents
- Payments are adjusted every 12 months based on how your AGI and family size change and can be less than the accrued interest each month ("**negative amortization**" is permitted)

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IDR Plans Payments Based on **INCOME**

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

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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 for New Borrowers	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

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Interest Subsidy—REPAYE (Resident)
 Federal Student Loan Debt = \$200,000 (all unsub) (Weighted avg. interest rate = 6.0%)
 2020 Household AGI = see below (Household Size = 1; State = CA; 2020 Poverty Guidelines)
 (Estimates calculated using "Loan Simulator" at: StudentAid.gov)

Item	AGI = \$0	AGI = \$50,000
Interest accrued/month ("Extended Graduated" plan)	\$1,000	
"REPAYE" monthly payment	\$0	\$258
Negative amortization (unpaid interest)	\$1,000	\$742
50% subsidy of negative amortization	\$500	\$371
Annual subsidy	\$6,000	\$4,452

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Sample INITIAL Monthly Payments*
 REPAYE/PAYE (10% of AGI) vs. STANDARD (10-year, fixed payment) plan

AGI	REPAYE and PAYE [10% of "Discretionary Income"]			STANDARD [10 year, fixed payment, 6.3% int. rate]	
	HH Size = 1	HH Size = 2	HH Size = 3	TOTAL LOAN DEBT	Payment
\$0	\$0	\$0	\$0	\$25,000	\$281
\$25,000	\$49	\$0	\$0	\$50,000	\$563
\$50,000	\$257	\$201	\$145	\$75,000	\$844
\$75,000	\$466	\$410	\$354	\$100,000	\$1,125
\$100,000	\$674	\$618	\$562	\$125,000	\$1,407
\$125,000	\$882	\$826	\$770	\$150,000	\$1,688
\$150,000	\$1,091	\$1,035	\$979	\$175,000	\$1,969
\$175,000	\$1,299	\$1,243	\$1,187	\$200,000	\$2,251
\$200,000	\$1,507	\$1,451	\$1,395	\$225,000	\$2,532
\$225,000	\$1,716	\$1,660	\$1,604	\$250,000	\$2,813
\$250,000	\$1,924	\$1,868	\$1,812	\$275,000	\$3,095

* REPAYE/PAYE monthly payment estimates based on 2020 federal poverty guideline for 48 states (assumes PFH exists for PAYE)

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30 Doing the math!

How much will you have to pay each month?

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Estimate Your Monthly Payments "Loan Simulator" at: [StudentAid.gov](https://studentaid.gov)

The screenshot shows the StudentAid.gov website. At the top, there is a navigation bar with links for UNDERSTAND, APPLY FOR AID, COMPLETE AID PROCESS, MANAGE LOANS, and Log In (Dash Account). Below this is a main banner with the text "You Are America's Smartest Investment" and a "Log In" button. To the right of the banner, there is a text box that says "To 'Log In' enter your FSA ID:" followed by checkboxes for "Username" and "Password". Below this, it says "Then select the 'Loan Simulator' from the tools that are available on your DASHBOARD. (Estimates are for Direct/FFEL loans only)".

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Loan Simulator Additional Comments

- All estimates assume a very simplistic approach to repayment:
 - You remain on same payment plan throughout repayment
 - Never prepay on the debt (*do not pay extra amounts to pay off the debt faster*)
- Cannot compare **"Total Paid"** estimates for the different plans
 - "Total Paid"** estimates do **NOT** take into account:
 - TIME-VALUE OF MONEY** (i.e., inflation–NOT Present Value estimates)
 - OPPORTUNITY COST** (i.e., value of what you are forgoing each month as you repay the debt)
 - As such, 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 **IDR** plans based on unrealistic assumptions
 - Household AGI** is assumed to increase annually by x% (*you can set the amount*)
 - Family size is assumed to remain unchanged during repayment

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33 Taking Charge

Develop Your Loan Repayment Plan

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Develop Your “Action Plan”

4 Steps

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1. Take stock of your loan portfolio
 - Review loan summary/details at: StudentAid.gov
2. Determine when repayment begins
3. Choose your payment plan
4. Evaluate if “Consolidation” is beneficial

Remember, you must repay all that you owe!

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Who is your loan servicer?

Federal Direct Loans

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- Direct Loans currently are “serviced” by the following private contractors (July 2020):

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

- ED will be changing how your Direct Loans are serviced in the coming months; servicing will be managed directly through StudentAid.gov—**you will be notified when the change occurs!**
- Check your “dashboard” at: StudentAid.gov to verify contact information for the loan servicer for each of your federal loans.

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When does repayment begin?

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Loans with GRACE PERIOD

- Sub and Unsub/Stafford
 - 6 months after graduation
- Perkins
 - 9 months after graduation; 6 months following deferment
- HPSL, LDS, NSL (HHS loans)
 - 12 months after graduation
- Institutional/Private
 - Contact school/lender

Loans without GRACE PERIOD

- Grad PLUS
 - 6 months after graduation due to automatic 6-month post-enrollment deferment
- Consolidation
 - At graduation
- Prior loans where grace period has been used
 - At graduation
 - Perkins has 6-month grace period following deferment

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Picking Your Payment Plan

(Subsidized, Unsubsidized, Grad PLUS, Consolidation Loans)

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- **Why?**
 - Your loans will remain on the **Standard (10-year fixed) Plan** if you fail to notify servicer of desired plan
- **When?**
 - 45-60 days prior to start of active repayment – *your loan servicer should contact you to confirm what plan you want to use*
- **How?**
 - Follow directions provided by your loan servicer
 - You will need to apply online for the **Income-Driven Repayment (IDR) plan** you want to use
 - IDR application is available online from the “**In Repayment**” checklist on your DASHBOARD at: StudentAid.gov
- **What if you need to change plans?**
 - Contact your loan servicer

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Completing IDR Plan Application AGI and IRS Income Confirmation Step

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- **Adjusted Gross Income (AGI)** from your prior year’s federal tax return is to be used to calculate monthly IDR payment unless you report that you have LESS income when you apply for the IDR plan.
 - Therefore, you should file your federal income tax return at IRS.gov in the Spring of your final year of enrollment (even if you earned \$0 in the prior year).
- IDR application asks the following question:
 - “Has your income **significantly decreased** from the **AGI** on your prior year’s federal tax return, for example have you lost your job or had a loss of income?”
 - You should only answer YES to this question if you are earning LESS income at the time you are applying for the IDR plan. Otherwise, federal law requires that your prior year’s AGI be used to calculate your IDR payment for the upcoming 12 months (even if you are now earning MORE income).

BUT, you must file your federal tax return for the prior year to take advantage of this feature.

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What are your options during residency?

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Start Making Payments	Postpone Repayment
<ul style="list-style-type: none">□ Revised Pay As You Earn (REPAYE) offers:<ul style="list-style-type: none">□ Smallest monthly payment (based on prior year’s AGI)□ Largest subsidy benefit when “negative amortization” exists□ Payments (even if \$0/month) count as qualifying payments for PSLF/forgiveness benefits	<ul style="list-style-type: none">□ “Medical/Dental Internship/Residency Forbearance” is only option

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Mandatory Forbearance During Dental/Medical Residency

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- Temporarily postpones loan payments
- Interest accrues — *can be capitalized at end of approved forbearance period*
- Available during entire residency
- Must be requested from loan holder/servicer
- Must be renewed on annual basis

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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 (e.g., HPSL, LDS, NSL, Perkins) – 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: StudentAid.gov

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Reasons to Consolidate

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- Simplify repayment by reducing number of lenders/servicers—**do NOT need to “consolidate” DIRECT loans to get a single bill**
- Convert non-DIRECT federal student loan debt (e.g., FFEL, HPSL, LDS, NSL, Perkins Loans) into a Federal Direct Consolidation Loan—**only DIRECT loans are eligible for REPAYE/PAYE and PSLF**
- Increase maximum repayment term on federal student loan debt up to 30 years—**lowers monthly payment when using STANDARD or GRADUATED repayment options**
- Convert Direct Stafford Loans into a Direct Consolidation Loan as soon as you graduate so that you can force the debt into repayment sooner—**allows you to start repaying the debt using an Income-Driven Repayment plan (e.g., REPAYE) rather than waiting until the end of the 6-month GRACE period, and start earning months toward PSLF as soon as you begin residency**

For a very limited number of borrowers, it also converts variable-rate Stafford Loans (borrowed prior to 7/1/2006) into a fixed-rate Direct Consolidation Loan, also could release an endorser from Grad PLUS Loan(s) that required an endorser (co-signer) because you had adverse credit when you applied for the Grad PLUS Loan

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43 **Benefit for Public Service**

Public Service Loan Forgiveness Program (PSLF)

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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*).

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What constitutes a month of “qualifying public service?”

45

You must satisfy *three (3)* conditions during the month for that month to count toward PSLF benefit:

1. Must be repaying **qualifying** loans – only DIRECT loans (e.g., Direct Unsubsidized, Direct Grad PLUS) are eligible for PSLF.
2. Must be 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.
3. Must make an on-time “scheduled” **qualifying** payment (*any IDR plan*) on your DIRECT Loans.

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

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46 Be strategic in repayment ...

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

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When making decisions about student loan repayment ...

47 Consider a 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**
 - ❑ **Achieve your other financial goals more quickly**

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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 – payments are automatically deducted from your checking/savings account on the due date
 - Saves money – **interest rate reduced by 0.25%**
- ❑ **No penalty for prepayments**
 - ❑ Prepayments can be targeted at a specific loan; but must be applied to accrued interest before principal
 - ❑ Contact your loan servicer **before** you prepay for instructions
 - ❑ Target prepayment amount at loan(s) with highest interest rate

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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!

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The CARES Act Student Loan Provisions

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For all federal student loans owned by the U.S. Department of Education (includes all DIRECT LOANS):

- Interest is waived until January 31, 2021.
 - Direct Unsubsidized Loan for 2020-2021 = 4.30% (*fixed*)
 - Direct Grad PLUS Loan for 2020-2021 = 5.30% (*fixed*)
- Loans in active repayment will be placed on an ADMINISTRATIVE FORBEARANCE thereby suspending repayment until January 31, 2021.
 - These months will count as qualifying months toward all forgiveness benefits including PSLF
 - Borrowers must contact their loan servicer if they want to “opt out” of this administrative forbearance

For updates on the federal government’s response to the COVID-19 pandemic regarding student loans, go to: [StudentAid.gov/coronavirus](https://studentaid.gov/coronavirus)

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For more information ...

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- Contact the Financial Aid Office
- Contact your loan servicer(s)
- Online resources:
 - Federal student loan repayment: [StudentAid.gov](https://studentaid.gov)
 - Federal student loan summary/details: [StudentAid.gov](https://studentaid.gov)
 - “Loan Simulator”: [StudentAid.gov](https://studentaid.gov)
 - Federal Direct Consolidation Loans: [StudentAid.gov](https://studentaid.gov)
 - Income-Driven Repayment (IDR) Plans: [StudentAid.gov](https://studentaid.gov)
 - **Public Service Loan Forgiveness Program (PSLF):**
 - “PSLF Help Tool” online at: [StudentAid.gov](https://studentaid.gov)
 - Added information/FAQs online at: [StudentAid.gov/publicservice](https://studentaid.gov/publicservice)
 - Call **Fedloan Servicing** at: 1-855-265-4038
 - Free annual credit report: AnnualCreditReport.com

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BE STRATEGIC:
Take Charge of
Loan Repayment!



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