Understanding Student Loan Repayment

**KEY TIPS FOR MANAGING STUDENT LOANS**

► Understand your student loan portfolio
  ▪ Know what types of loans you have
  ▪ Know your lenders and servicers
  ▪ Know how much you owe
  ▪ Know what your interest rate is
  ▪ Know what your total monthly payments will be
  ▪ Know what borrower benefits are available

► Understand the capitalization and its impact

► Know grace, deferment and forbearance options

► Know Federal Loan Repayment Plan options

► Avoid delinquency & default

► Keep good records

► Know resources

**UNDERSTANDING STUDENT LOAN REPAYMENT**

► **Grace** - period of time after a borrower graduates, leaves school or drops to less than half-time
  ▪ No payments required during this period
  ▪ Time varies based on loan type
  ▪ Does not adversely impact credit
● **Deferment** - period when borrower who meets certain criteria may suspend loan payments
  - In-School
  - Economic Hardship
  - Military
  - **Forbearance** – typically sought for temporary repayment relief and provides temporary adjustment of no payments or reduced payments
  - Be careful to use because it adds expense
  - But can be very useful to help avoid delinquency and default

**FEDERAL LOAN REPAYMENT PLANS**

● **Standard**
  - Level monthly payments that cover accruing interest and a portion of principal over a 10-year period
  - Higher monthly payments
  - Lowest overall cost

● **Graduated**
  - Payments start low, increase over time
  - Interest only payments followed by standard principal & interest
  - Finish in 10 years
  - Higher overall – but provides lower initial payment amounts

● **Income Sensitive Repayment (Non-Direct Federal Loans)**
  - Payments are based on percentage of your monthly income
  - Payments must be sufficient to cover accruing interest
  - Finish in 10 years (may be extended to 15 years)

● **Income-Contingent (Direct Loans Only)**
  - Payment is based on income
  - Negative amortization is allowed
  - Up to 25 years to repay
  - Balance remaining after 25 years’ worth of payments can be forgiven
Extended Repayment

- Available to borrowers who have accumulated more than $30K in Direct or FFELP Federal Stafford, PLUS & Consolidation loans first disbursed on or after October 7, 1998
  - Direct and FFELP Federal Loans are accumulated separately in determining eligibility
- Repayment can be extended up to 25 years
- Permits you to manage monthly cash flow needs, but will increase your cost

Income-Based Repayment

- Available to federal loan borrowers experiencing financial hardship
- Borrower qualifies if annual monthly student loan payments exceed 15% of “discretionary income”
- If eligible for IBR, borrower’s monthly payment will be determined by a formula that takes into account household size and adjusted gross income. Increases in income will impact the required monthly payment amount
- Unpaid balance may be forgiven after 25 years of scheduled monthly payments

Pay As You Earn

- Announced by ED December 21, 2012
- Available to new Direct loan borrowers (except Parent PLUS) experiencing financial hardship
  - No loan balance as of October 1, 2007 and
  - Receive a Direct loan on or after October 1, 2011
- Borrower qualifies if annual monthly student loan payments exceed 10% of “discretionary income”
- Similar to IBR, borrower’s monthly payment will be determined by a formula that takes into account family size and adjusted gross income. Increases in income will impact the required monthly payment amount
- Unpaid balance may be forgiven after 20 years of scheduled monthly payments

Loan Consolidation

- Provides the ability for borrowers to consolidate all of their federal loans into one new loan
- FFEL and Direct Stafford Loans, Perkins Loans and PLUS Loans may be consolidated
- Interest Rate: weighted average of the interest rates on the loans being consolidated rounded to the nearest higher one-eighth of one percent. Multiple repayment options: Standard, Graduated, Extended, Income Contingent, Income Based
- Benefits:
  - Longer repayment period
TIPS ON REPAYING YOUR STUDENT LOANS

► Remember that you can always prepay federal and private student loans without penalty

► Never be late for a payment or miss one entirely

► Be aware of the total cost and pay more than the minimum whenever you can on the higher interest rate loans

► Pay your bill as early as possible

► Take advantage of all borrower benefits available to you; which can mean lowering your interest rate

► Understand deferment and forbearance and use them wisely

KEEP GOOD RECORDS

► Get all loan documents together: keep them on file!
  ▪ Promissory notes
  ▪ Disclosure statements
  ▪ Award Letters
  ▪ Exit interview information

► Open and READ student loan mail

► Bookmark loan servicer’s websites

► Notify loan servicer(s) of name & address changes

► Document calls to servicer: date/time of call & person who handled the call

► Keep important numbers available