Key Tips for Managing Your Student Loans
Important Things to Know

► Know your loan portfolio – loan types and relative cost
► Know your deferment and forbearance options
► Know the decision points and keep a calendar
► Know the cost before choosing a repayment plan
► Know your available resources
► Stay abreast of changes that might impact your loans
Know Your Loan Portfolio

- Know what types of loans you have
  - Federal Loans
    - Direct Loans
    - FFELP Loans
  - Private/Alternative Loans

- Identify your servicers
  - Who do I pay?
Federal and/or private loans may not all be with one servicer

Buying and Selling of Students Loans:
- Original lender may have sold a student’s loan
- This means a student has a new loan “holder” and/or “servicer”
  For example, a FFEL loan may have been sold to the Department of Education (ED) who now holds the loan and is having it serviced by one of its federal loan servicers such as:
  - Direct Loan Servicing Center (ACS)
  - Great Lakes
  - Nelnet
  - FedLoan Servicing (PHEAA)
  - Sallie Mae

- Borrowers must be notified if the service provider of loan changes
- The terms of a federal loan, as specified in the promissory note, will not change if sold or transferred to another servicer
Finding Your Federal Student Loans

National Student Loan Data System
www.nslds.ed.gov

Provides data on federal student loans; any Stafford, Grad PLUS, Consolidation or Perkins Loans should be listed in this central database
Eligible “split serviced” borrowers (those with FFELP or Direct loan held by ED) may take advantage of a Consolidation program through the Department of Education

- Available January through June 2012
  - Eligible borrowers will be contacted by their federal loan servicer(s)
  - Loans must be in grace, repayment, deferment or forbearance. Loans in default or subject to a bankruptcy proceeding are not eligible.

- Loans would receive a special .25 percentage point interest rate reduction. This is in addition to the .25 percentage point interest rate reduction available for borrowers making payments using automatic debit.
Subsidized vs. Unsubsidized Loans

**Subsidized Loans**
Have no interest cost while student is in school, in grace (if applicable), or in a period of authorized deferment

**Unsubsidized Loans**
Borrower is responsible for interest that accrues from the time of disbursement

**EXAMPLES**
- **Subsidized Stafford Loans**
- **Perkins Loans**
- **Consolidation Loans - portion of underlying eligible subsidized loans**
- **Primary Care Loan (PCL) Program**
- **Loans for Disadvantaged Students (LDS)**
- **Some institutional loans (see promissory note or aid office)**

**EXAMPLES**
- **Unsubsidized Stafford Loans**
- **Graduate PLUS Loans**
- **Consolidation Loans - unsubsidized portion, which includes the unsubsidized Stafford loans plus any Perkins, Health Professions Student Loan or LDS loans including in the consolidation**
- **Private Loans**

Note: Subsidized Stafford Loans will no longer be available for graduate students beginning July 1, 2012. See slide 12 for more information
Relative Costs of a Student Loan
Relative Costs of a Student Loan

- **Interest Rate**
  - What the lender charges for the use of money

- **Capitalization**
  - The addition of unpaid accrued interest to the principal balance of a loan

- **Borrower Benefits/Repayment Incentives**
  - Interest rate reductions
  - Credits to loan balance
  - Some benefits and repayment incentives impose eligibility requirements such as signing up for automatic debt or making a certain number of on-time payments
<table>
<thead>
<tr>
<th>Loan type</th>
<th>Undergraduates</th>
<th>Graduate Students</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Subsidized Staffords</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate can vary, based on academic year in which loans are issued</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-13</td>
<td>3.40%</td>
<td>6.80%</td>
</tr>
<tr>
<td>2011-12</td>
<td>3.40%</td>
<td>6.80%</td>
</tr>
<tr>
<td>2010-11</td>
<td>4.50%</td>
<td>6.80%</td>
</tr>
<tr>
<td>2009-10</td>
<td>5.60%</td>
<td>6.80%</td>
</tr>
<tr>
<td>2008-09</td>
<td>6.00%</td>
<td>6.80%</td>
</tr>
<tr>
<td>2007-08 and 2006-07</td>
<td>6.80%</td>
<td>6.80%</td>
</tr>
<tr>
<td><strong>Unsubsidized Stafford Loans</strong></td>
<td>6.80%</td>
<td>6.80%</td>
</tr>
<tr>
<td><strong>Graduate PLUS Loans</strong></td>
<td>---</td>
<td>7.90%</td>
</tr>
<tr>
<td><strong>Consolidation Loan</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed rate based on weighted-average interest rate of underlying loans rounded up to nearest one-eighth of a percent (capped at 8.25%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Perkins, Primary Care Loan, Loan for Disadvantaged Students (LDS)</strong></td>
<td>5% Fixed</td>
<td></td>
</tr>
<tr>
<td><strong>Private Loans, Institutional Loans</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Check your promissory note for rate and index</td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Rates in effect for loans issued on or after July 1, 2006.</em></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Stafford loans disbursed from 7/1/1998 to 6/30/2006 carry variable rates, which are adjusted annually, each July 1. The variable rate for these Stafford loans during the 2011-12 academic year is 1.76% for loans in an in-school, grace or deferment period, 2.36% for loans in repayment or forbearance.

These rates apply to both undergraduate and graduate students.

**Note:** Rate for Grad PLUS loans issued under the Federal Family Education Loan Program is 8.50%
Effective July 1, 2012, the following changes will take effect:

- Graduate students will no longer have access to Federal Subsidized Stafford Loans
  - All Federal Stafford Loans will be unsubsidized meaning that the student will be responsible for the interest that accrues during the in-school, grace, and deferment periods.

- Graduate students will be responsible for the full 4% origination fee on all Grad PLUS loans
  - Prior to July 1, 2012, Grad PLUS borrowers have access to a 1.5% fee rebate making the fee 2.5% for many students.
**Capitalization of Interest and Its Impact**

- Interest on most loans accrues from the date funds are disbursed until the loan is paid in full.
- Capitalization is the addition of unpaid accrued interest to the principal balance of a loan.
  - Less frequent the better.
- Capitalization may occur more frequently for certain loan periods during forbearance.
- Tip: Student should consider asking family to help with interest.

---

### Table: Capitalization of Interest

<table>
<thead>
<tr>
<th>Treatment of Interest Accrued During Deferral or Forbearance Status</th>
<th>Loan Amount</th>
<th>Capitalized Interest for 12 Months</th>
<th>Principal to Be Repaid</th>
<th>No of Payments</th>
<th>Monthly Payment</th>
<th>Total Amount Repaid*</th>
<th>Total Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest is paid as it accrues</td>
<td>$15,000</td>
<td>$0.00</td>
<td>$15,000.00</td>
<td>120</td>
<td>$172.62</td>
<td>$21,734.46</td>
<td>$6,734.46</td>
</tr>
<tr>
<td>Interest is capitalized at the end of status</td>
<td>$15,000</td>
<td>$1,020.00</td>
<td>$16,020.00</td>
<td>120</td>
<td>$184.36</td>
<td>$22,123.04</td>
<td>$7,123.04</td>
</tr>
<tr>
<td>Interest is capitalized quarterly during status and at the end of status</td>
<td>$15,000</td>
<td>$1,046.31</td>
<td>$16,046.31</td>
<td>120</td>
<td>$184.66</td>
<td>$22,159.37</td>
<td>$7,159.37</td>
</tr>
</tbody>
</table>

*Total amount repaid includes any capitalized interest.
Money-saving borrower benefits and repayment incentives were typically offered to borrowers by lenders in recent years.

They took the form of interest rate reductions, credits to loan balance and/or cash rebates and imposed eligibility rules such as making a specific number of on-time payments.

**Borrowers should make sure to:**

- Find out if any of their loans are eligible for borrower benefits or repayment incentives by contacting loan service provider or consulting lender’s web site.
- Research the terms to know and understand the eligibility rules.
Understanding Loan Repayment
Ways to Delay Repayment

► If loans have a grace period, borrowers may not be asked to start making payments until the grace period is over

- Stafford, Federal Perkins and some private loans offer grace periods
- Federal Consolidation Loans and Grad PLUS loans do not have grace periods

► Grad PLUS loans issued on or after July 1, 2008, include a six-month post-school deferment that essentially aligns with the Stafford grace period

► Forbearance can also be used to temporarily postpone payment if necessary for Consolidation loans and older Grad PLUS loans

► Borrower can postpone repayment on federal loans via a deferment or forbearance

► Borrower has to meet the qualifying conditions for a deferment or a forbearance
Understanding Grace Periods

Grace Period: for applicable loans, the period of time after a borrower graduates, leaves school or drops to less than half-time enrollment

► Payments may not be required during this period
► No application required
► Loan specific, varies according to loan – once used completely, it’s gone
  ▪ Stafford loans have a six-month grace period
  ▪ Perkins loans have nine-month grace
  ▪ Perkins loans can also have a 6-month grace after deferment
  ▪ Private and Institutional loans: check your promissory note
► Currently, subsidized federal loans are interest free to the borrower during the grace period
► Unsubsidized federal loans continue to accrue interest during the grace period
► Taking advantage of a grace period does not adversely impact credit
Understanding Federal Loan Deferments

Deferment: period when a borrower who meets certain criteria may postpone loan payments

- Application may be required depending on deferment type. Recertification for subsequent deferment periods may also be required.
- Stafford deferments are “borrower” specific, meaning eligibility is attached to the borrower.
- The government pays interest on a borrower’s behalf for subsidized loans during authorized deferment periods.
  - Unsubsidized loans continue to accrue interest for which the borrower is responsible. Unless the interest is paid by the borrower, it may be capitalized.
  - Putting loans into deferment does not adversely impact credit.

Common Types of Deferment

- In-School
- Economic Hardship
- Unemployment
- Military
- Graduate Fellowship
Understanding Federal Loan Forbearances

Forbearance: allows a borrower who cannot make scheduled payments to temporarily delay or reduce the payments

- Interest continues to accrue on subsidized and unsubsidized loans during a forbearance period
- Interest that accrues during the forbearance remains the borrower’s responsibility
- Unpaid interest may be capitalized as often as quarterly and at the end of the forbearance depending on the loan type and when the loan was disbursed
- Capitalization of interest increases the amount to pay back, and may result in a higher payment amount after the forbearance
- Electing forbearance does not adversely impact credit, but may adversely impact eligibility for borrower benefits or repayment incentives (check with your lender)

Tips:

- Be careful, the use of forbearance adds expense!
- Forbearances can be a great tool to help you stay out of delinquency and default!
Medical and dental school residents are eligible to receive a forbearance during their residency as long as the residency meets certain criteria such as being required for a degree, certificate, or licensing for professional practice or service.

- Renewable on an annual basis in 12-month increments.
Paying Loans Off Early

- Borrowers can always prepay federal and private student loans without penalty.

- Be aware of the relative cost and make payments towards unsubsidized loans that have the highest rates and/or most frequent capitalization. This should save more money over time.

- Unless otherwise noted, loan payments typically are applied first toward late fees, then interest, and finally principal.
Delinquency & Default (Federal/Private Loans)

DELINQUENCY & DEFAULTS ON STUDENT LOANS CAN ADVERSELY IMPACT YOUR CREDIT HISTORY

- **Delinquency**
  - Failure to make payment(s) when due
  - Reported to credit bureaus; affects borrowers history

- **Default**
  - Collection agencies may take over adding to cost
  - Lender can take legal action
  - School can withhold records
  - Federal defaults could include wage garnishment & withholding of federal tax refunds
  - Inability to renew professional license
  - Student loans are rarely discharged in bankruptcy
Federal Loan Repayment Plans

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

- **Graduated Repayment**
  - Payments start low, increase over time
  - Interest only payments followed by standard principal & interest
  - Finish in 10 years
  - Higher overall cost – but provides lower initial payment amounts
Federal Loan Repayment Plans (Continued)

- **Income Sensitive Repayment (FFELP/Put Only)**
  - 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 Repayment (Direct Loans Only)**
  - Payment is based on income
  - Up to 25 years to repay
  - Balance remaining after 25 years’ worth of payments can be forgiven
Federal Loan Repayment Plans (Continued)

► **Extended Repayment**
  - Available to borrowers who have accumulated more than $30K in Federal Stafford, PLUS & Consolidation loans first disbursed on or after October 7, 1998
  - 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
## Federal Loan Repayment Comparison

<table>
<thead>
<tr>
<th>Total Loan Amount</th>
<th>$150,000 in Loans *</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initial Monthly</td>
</tr>
<tr>
<td></td>
<td>Payment</td>
</tr>
<tr>
<td>Standard</td>
<td>$1,726</td>
</tr>
<tr>
<td>Graduated (4 years interest-only)</td>
<td>$850</td>
</tr>
<tr>
<td>Extended (Standard)</td>
<td>$1,041</td>
</tr>
<tr>
<td><strong>Income-based repayment</strong></td>
<td><strong>$727</strong></td>
</tr>
<tr>
<td>Income-sensitive repayment</td>
<td>$850</td>
</tr>
<tr>
<td>Consolidation (Standard)</td>
<td>$985</td>
</tr>
</tbody>
</table>

Examples assume federal Stafford loans with the total loan amount due on the day repayment begins, 6.8% fixed interest rate on non-consolidated loans and 6.875% interest rate on consolidated loans, no borrower benefits or repayment incentives, no pre-payments and no delinquent payments. All payment calculations are estimates only. Monthly payment schedule and total payment estimates will vary. Note: Sallie Mae's current repayment calculator estimates schedules for non-consolidated loans. This table provides consolidation schedule for fuller comparison of borrowers' repayment options.

*Income-based repayment assumptions: Borrower is repaying $34,000 in subsidized Stafford loans and $116,000 in unsubsidized Stafford loans, all carrying a rate of 6.8%. In this scenario, the calculations assume a household size of 2, residence within the Continental U.S., an initial adjusted gross income (AGI) of $80,000, and a 5% annual increase in AGI. The example also assumes that borrower is married but spouse has no IBR-eligible loans. The borrower’s payment will rise each year until it reaches the maximum payment amount allowed, which, in this example, is $1,726—the monthly payment amount required to repay the balance of the loans at the time they are placed into IBR, in equal installments over a 10-year term. In this example, the borrower can expect to make 245 payments (approximately 20.5 years), totaling $307,959. In addition, the borrower can expect to qualify for a small interest subsidy of $658, during the early years of the loan. All payments are assumed to be made on time.
Eligibility limited to Federal Direct Student Loans (FDLP), Stafford, Grad PLUS and Consolidation

- FFELP Stafford, Grad PLUS and Consolidation loans are not eligible in their current forms.

FFELP Borrowers may consolidate in the FDLP program on or after July 1, 2008.

Additionally, borrowers must have:

- Made 120 on-time monthly payments beginning after October 1, 2007 during eligible public service employment.
- Payments must be made under one of the payment plans: Standard, Income Based or Income Contingent.
- Worked full time in eligible public service employment for ten years after October 1, 2007.
- Must be employed in an eligible public service job at time remaining loan balance is forgiven.
A new “Dear Borrower” letter was released earlier this year and provides important information about the Program, including how to determine if your employment and loan payment history meet the Program’s loan forgiveness requirements.
It will take you at least 10 years to make the 120 qualifying payments necessary to receive PSLF.
During this time you’ll want to track your periods of qualifying employment.
The Employment Certification Form will allow you to get your employer’s certification of employment while you are still employed.

Program is designed for federal loan borrowers experiencing “partial financial hardship”

Borrower qualifies if annual monthly student loan payments exceed 15% of “discretionary income”

- (AGI minus 150% of Poverty Income Guidelines) x 15%

If eligible for IBR, borrower’s monthly payment will be determined by a formula that takes into account household size and adjusted gross income

Negative amortization may occur with this option because it allows minimum monthly payments to be less than accruing interest

IBR provides for up to a 36-month interest subsidy period when a scheduled monthly payment amount on a subsidized loan is less than accrued interest

Unpaid balance may be forgiven after 25 years of scheduled monthly payments which includes periods of economic hardship deferment, but not other periods of deferment and forbearance
Effective July 1, 2010

- IBR eligibility test is based on larger of:
  - Balance of IBR-eligible loans at beginning of repayment
  - Balance of IBR-eligible loans when enrolled in IBR
    - This change helps medical residents whose balances grow during a medical residency forbearance or fellowship deferment

- Marriage penalty is eliminated for borrower whose spouse has IBR-eligible loans
  - Spouse’s loans will be factored into eligibility test
  - Payment formula will take spouse’s loans into account
    - Example: If IBR payment is $750, borrower has $150,000 in loans and spouse has $75,000 in loans, borrower’s share of the payment is $500—since borrower has 2/3 of the total loan balance
### IBR Eligibility Example

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at start of repayment*</td>
<td>$150,000</td>
</tr>
<tr>
<td>Total standard payments for IBR-eligible loans</td>
<td>$1,726</td>
</tr>
<tr>
<td>12 months’ worth of payments</td>
<td>$20,714</td>
</tr>
<tr>
<td>AGI</td>
<td>$47,000</td>
</tr>
<tr>
<td>State of Residence</td>
<td>Florida</td>
</tr>
<tr>
<td>Household size</td>
<td>1</td>
</tr>
<tr>
<td>2011/2012 Poverty Income Guideline</td>
<td>$10,890</td>
</tr>
<tr>
<td>150% of Poverty Income Guideline</td>
<td>$16,335</td>
</tr>
<tr>
<td>Discretionary Income [(0.15 * ($47,000 - $16,335))]</td>
<td>$4,600</td>
</tr>
<tr>
<td>Is borrower experiencing partial financial hardship?</td>
<td>Yes</td>
</tr>
<tr>
<td>Does a year's worth of payments exceed discretionary income?</td>
<td></td>
</tr>
<tr>
<td>Initial Monthly Payment Under IBR</td>
<td>$383</td>
</tr>
</tbody>
</table>
Effective for new borrowers July 1, 2014:

- Borrower qualifies for IBR if annual monthly student loan payments exceed 10% (reduced from 15%) of “discretionary income”
  - AGI minus 150% of Poverty Income Guidelines x 10%

- Unpaid balance may be forgiven after 20 years (reduced from 25 years) of scheduled monthly payments.
  - Periods of deferment and forbearance are not counted in this 20 years.
Private Loan Repayment

- Private loans are almost always unsubsidized for the life of the loan
- Repayment terms vary
- Choice of repayment plans may be available
- Forbearances may be available – consult loan servicer

Tips:
Refer to your promissory note and/or your servicer to determine your available options
Student Loan Debt Can Accumulate Quickly

KNOW HOW MUCH YOU OWE?

► Calculating a debt-to-income ratio:

\[
\frac{\text{Minimum debt payments (including mortgage or rent)}}{\text{Monthly gross income}}
\]

Example: You earn $5,000 each month in gross income, and a yearly bonus nets you $500 a month. Your total monthly income is $5,500.

You pay $200 a month in student loans, $500 in rent, $150 on a car payment, and $150 on your credit cards and other expenses. Your total monthly debt payments are $1,000.

$1,000 (debt) divided by $5,500 (income) = a ratio of 18.2%.

► A general guideline for debt-to-income ratios

- 36% or less - Excellent
- 37% to 42% - Acceptable
- 43% to 49% - Overextended
- 50% or higher - Danger!
PUT TOGETHER A SNAPSHOT OF WHAT YOU OWE

► Student loans
   + $ ____________________

► Other loans
   ▪ Credit card balance(s)    + $ ____________________
   ▪ Automobile loan          + $ ____________________
   ▪ Mortgage loan            + $ ____________________

► Other Money Owed
   + $ ____________________

► TOTAL
   $ ____________________
Be Careful with Credit Cards

► Watch the interest rate
► Get the “full scoop” on special introductory rates
► Stay out of the “penalty” box
► Pay the minimum, pay the price
► Research any credit card fees you may be charged
Avoid Making Just Minimum Monthly Payments

Example: If borrower has $2,000 financed at 19.8% and only makes the minimum monthly payment of $35; what happens?

► Borrower will take more than 17 years to pay off that $2,000
► Borrower will pay more than $5,100 total (approx. $3,100 in interest)
► What could possibly be worth paying more than twice the amount originally financed?
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
Borrowers may be eligible to deduct student loan interest

Deduction may not exceed $2,500 per year

Voluntary payments of interest during school, deferment or forbearance may be eligible for deduction

Interest paid on consolidation loans may be deducted

There are eligibility rules, including income limits

The limits for Federal Tax Year 2011 are shown in the table below:

School financial aid office
Lender/servicer
Federal Student Aid Ombudsman
  U.S. Department of Education – FSA Ombudsman
  http://www.ombudsman.ed.gov or 1-877-557-2575

Federal Loan Servicers:

<table>
<thead>
<tr>
<th>Servicer</th>
<th>Phone Number</th>
<th>Website</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Loans</td>
<td>800-848-0979</td>
<td><a href="http://www.dl.ed.gov">www.dl.ed.gov</a></td>
</tr>
<tr>
<td>Great Lakes</td>
<td>800-236-4300</td>
<td><a href="http://www.mygreatlakes.org">www.mygreatlakes.org</a></td>
</tr>
<tr>
<td>FedLoan Servicing</td>
<td>800-699-2908</td>
<td><a href="http://www.myfedloan.org">www.myfedloan.org</a></td>
</tr>
<tr>
<td>Nelnet</td>
<td>888-486-4722</td>
<td><a href="http://www.nelnet.com">www.nelnet.com</a></td>
</tr>
<tr>
<td>Sallie Mae</td>
<td>800-722-1300</td>
<td><a href="http://www.salliemae.com/edservicing">www.salliemae.com/edservicing</a></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 to you

► Understand loan capitalization and its impact

► Know your grace, deferment and forbearance options

► Know your Federal and private Loan Repayment Plan options

► Avoid delinquency & default

► Keep good records

► Know your resources
Questions
The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered or evaluated. Nothing in this presentation constitutes or is designed to constitute legal advice.