

# *Repayment Strategies: What You Need To Know*

## Objectives

- Provide information about your loan repayment options (including Consolidation)
- Provide resources to assist in determining the best option for you
- Provide information about student loan deferments and forbearances
- Answer questions you may have

# Repayment

- Loans must be repaid in full even if you:
  - Do not finish school.
  - Are not satisfied with your school or program.
  - Do not find a job after graduation.
- You are required to pay your loan—even if you don't receive a bill—so make sure your servicer has your current contact information.
- Each loan will begin in a Standard Repayment schedule—you may change your repayment plan once per year (or once you qualify for Income-Based Repayment).
- You can pay loans on a shorter schedule—there's no penalty for prepaying your federal student loans.
- If you're having trouble repaying, call your servicer or ASA to discuss your options. We can help.

## Grace Period

- All Stafford loans receive one six month grace period
  - If you graduate December 15, your first payment will be due June 15
  - If you consolidate during your grace period, you lose the remainder of the grace
- No payments required
- Begins the day after you withdraw, graduate, or drop below half time

## Federal Perkins Loan

- All Perkins loans receive a 9 month grace period
- Fixed interest rate of 5%
- Minimum payment amount \$40

## *Repayment Options*

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## Estimated Standard Repayment Schedule

Amount Borrowed	Number of Months	Monthly Payment	Total Amount Repaid
\$15,000	120	\$173	\$20,714
\$20,000	120	\$230	\$27,600
\$25,000	120	\$288	\$34,524
\$35,000	120	\$403	\$48,334
\$45,000	120	\$518	\$62,143
\$55,000	120	\$633	\$75,953
\$65,000	120	\$748	\$89,763
\$75,000	120	\$863	\$103,572
\$85,000	120	\$978	\$117,382
\$95,000	120	\$1,093	\$131,192
\$105,000	120	\$1,208	\$145,001
\$115,000	120	\$1,323	\$158,881
\$125,000	120	\$1,439	\$172,621
\$150,000	120	\$1726	\$207,144
\$175,000	120	\$2014	\$241,670

Total amount includes principal and interest. This schedule assumes a 6.8 percent interest rate and a standard repayment term of 10 years.

## Repayment Options

- Standard
- Graduated
- Extended
- Income Sensitive
- Income Contingent
- Income-Based

Another option:

- Consolidation

## Standard Repayment

- Minimum monthly payment is \$50.
- Monthly payment will typically be more than \$50 to ensure your loan is repaid within 10 years.
- Keeps finance charges to minimum.
- Most cost-effective repayment option—you pay the least interest.

## Income-Sensitive Repayment

- Monthly payment is adjusted annually so payment is between 4 percent and 25 percent of your gross monthly income.
- Payments may be as low as \$5 per month.
- Maximum repayment period is 10 years; however, the lender/holder may extend the term up to 5 additional years in certain cases.

## Graduated Repayment

- Payments start smaller—\$30 is the minimum monthly payment—and gradually increase throughout repayment.
- A good alternative if you anticipate your income will increase in the future.
- Maximum repayment term is 10 years; however, the lender/holder may extend the term up to 4 additional years in certain cases.

## Extended Repayment

- For borrowers with more than \$30,000 in loan debt.
- Payment amounts can be either fixed or graduated.
- Extends your repayment term.
- Maximum repayment term is 25 years.
- Minimum monthly payment is \$50.
- More expensive because extending your term increases the time you pay interest.
- Available to borrowers whose oldest loan was originated on or after October 7, 1998.

## Income-Contingent Repayment

- Payments are based on the borrower's income and the total amount of debt.
- Monthly payments are adjusted each year as the borrower's income changes.
- The loan term is up to 25 years. At the end of 25 years, any remaining balance on the loan will be discharged.
- The write-off of the remaining balance at the end of 25 years is taxable under current law.
- There is a \$5 minimum monthly payment.

*Income Based Repayment (IBR)*

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## Income-Based Repayment

- Available since July 1, 2009
- Monthly payments are capped at no more than 15 percent of your discretionary income, which is based on your income, family size, and total amount borrowed. (Changes to this for new borrowers in 2014)
- Maximum repayment period is 25 years
- Any remaining debt after 25 years is forgiven
- Must display partial financial hardship to qualify

## IBR - Partial Financial Hardship (PFH) Determination

- When a borrower's amount due on all eligible loans (based on the standard-standard) exceeds 15% of their discretionary income
- Verified every year
- Borrower must provide permission for IRS to disclose AGI information "and other tax return information" as well as family size certification
  - IRS Tax Form 4506-T
- Can remain in IBR even if no longer determined to have PFH

## IBR - Discretionary Income

- 15% of the difference between the borrower's adjusted gross income (AGI) and 150% of the federal poverty level (FPL).
  - 15% [Monthly AGI – (150% FPL for family size)]
  - Monthly payments will be capped at this amount when a borrower is experiencing a PFH

### Example:

Monthly AGI = \$3,600

Family Size = 3

150% FPL for Family of 3 = \$2,288.75

$$\begin{aligned}\text{Monthly Discretionary Income} &= 0.15 \times (3,600 - 2,288.75) \\ &= 0.15 \times 1,311.25 \\ &= \mathbf{\$196.69}\end{aligned}$$

## 2010 Federal Annual Poverty Limits (FPL)

Number in Family / Household	Poverty Guideline	150% of poverty guideline
1	\$10,830	\$16,245
2	\$14,570	\$21,855
3	\$18,310	\$27,465
4	\$22,050	\$33,075
5	\$25,790	\$38,685
6	\$29,530	\$44,295
7	\$33,270	\$49,905
8	\$37,010	\$55,515

Alaska and Hawaii have higher poverty guidelines

## IBR - PFH Eligibility and Verification

- Eligibility and minimum monthly payments are re-evaluated annually
- If a borrower fails to submit documentation they will be automatically placed on a standard repayment plan
- Even if a borrower no longer has a PFH, they may elect to remain in IBR
  - Borrower will be placed in a Permanent-Standard repayment plan

# General IBR Payment Calculations

IBR Monthly Payment Amount							
Annual Income	Family Size						
	1	2	3	4	5	6	7
\$10,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$15,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
\$20,000	\$47	\$0	\$0	\$0	\$0	\$0	\$0
\$25,000	\$109	\$39	\$0	\$0	\$0	\$0	\$0
\$30,000	\$172	\$102	\$32	\$0	\$0	\$0	\$0
\$35,000	\$234	\$164	\$94	\$24	\$0	\$0	\$0
\$40,000	\$297	\$227	\$157	\$87	\$16	\$0	\$0
\$45,000	\$359	\$289	\$219	\$149	\$79	\$9	\$0
\$50,000	\$422	\$352	\$282	\$212	\$141	\$71	\$1
\$55,000	\$484	\$414	\$344	\$274	\$204	\$134	\$64
\$60,000	\$547	\$477	\$407	\$337	\$266	\$196	\$126
\$65,000	\$609	\$539	\$469	\$399	\$329	\$259	\$189
\$70,000	\$672	\$602	\$532	\$462	\$391	\$321	\$251

## Remember:

Apply \$0 or \$10 rule as applicable

From [www.studentaid.ed.gov](http://www.studentaid.ed.gov)

*Consolidation*

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# Consolidation

- You may combine all your federal student loans into one new loan.
- Your new maximum repayment term is based on the total loan amount and can be 10–30 years.
- Interest rates are fixed and are calculated by taking the weighted average of the original loans and rounding up to the nearest 1/8 percent.
- This option may lower your monthly payments; however, if you extend your term, you will pay more in interest.
- Additionally, your guarantor may change when you consolidate.
- Offers many pros and cons—research all your options before committing.

# Consolidation: Interest Calculation

Consolidation loan interest rates are calculated by taking the weighted average of the interest rates on your original loans and rounding up to nearest 1/8 percent (with the highest rate being 8.25 percent).

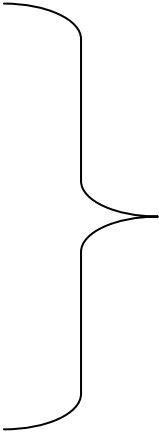
Example:

$$\mathbf{\$8,500 \quad x \quad 7 \text{ percent} = \$595}$$

$$\mathbf{\$10,000 \quad x \quad 5 \text{ percent} = \$500}$$

$$\mathbf{\underline{\$8,500} \quad x \quad 9 \text{ percent} = \underline{\$765}}$$

$$\mathbf{\$27,000 \qquad \qquad \qquad \$1860}$$


$$\mathbf{\$1860 \div \$27,000 = 6.888 \text{ (0.0688)}}$$

**6.888 percent rounded to nearest 1/8 percent (0.125) = 7.0 percent**

## Consolidation: Maximum Repayment Terms

<u>Amount Borrowed</u>	<u>Repayment Term</u>
Less than \$7,499	10 years
\$7,500 – \$9,999	12 years
\$10,000 – \$19,999	15 years
\$20,000 – \$39,999	20 years
\$40,000 – \$59,999	25 years
More than \$60,000	30 years

# Advantages of Consolidation

- You'll have to make only one monthly loan payment.
- There will be a single contact for all your customer service needs.
- Your monthly payment amount will be lower.
- You'll receive a longer repayment term—up to 30 years.
- You'll retain the option of choosing different repayment plans.
- You can still prepay your loan at any time—keep in mind that payments above your billed amount will help pay down your principal.

## Disadvantages of Consolidation

- More interest will accrue on and be added to your loan due to the longer payment period
- You will lose benefits tied to your original loans (e.g., 1/4 percent off interest rate for 48 on-time payments), including Perkins Loans, which lose their specific deferment and forgiveness benefits
- Consolidation could affect:
  - Your eligibility for deferments, discharges, and forgiveness
  - Your interest subsidy
- If you consolidate during your grace period, you will lose the remaining grace period on your Stafford Loans.



For Public Service Loan Forgiveness you must have a consolidated Direct Loan

*Deferment & Forbearance*

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# Deferment

- Deferment allows you to postpone making payments on your federal student loans.
- If you're approved for a deferment, the federal government will pay the interest on a subsidized Stafford Loan for a specified period; however, interest on unsubsidized loans will be added to your principal balance.
- Contact your servicer for specific information and to apply.

## Deferment

- If you meet any of the following conditions, you may qualify for a deferment:
  - Economic hardship
  - Unemployment
  - Enrollment in school
  - Summer bridge
  - Graduate fellowship
  - Rehabilitation training
  - Military
- If you borrowed any of your outstanding federal student loans before July 1, 1993, you may be eligible for additional types of deferments.

# Forbearance

- Forbearance is similar to deferment because it's a temporary postponement to your repayment schedule—usually from 6 months to 12 months in length.
- During forbearance, interest accrues on both subsidized and unsubsidized loans and you must repay it eventually.
- There are several types of forbearances, including the following:
  - Economic hardship
  - Internship or residency
  - Excessive debt
  - Disaster
  - Military mobilization
  - National and community service
  - Temporary disability
- Contact your loan servicer for exact forbearance eligibility requirements and to apply.

## *Delinquency & Default*

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## Delinquency and Default

### **Delinquency:**

- Failing to make payments when they are due.
- Even 1 day late can be considered delinquent.
- Paying late may adversely affect your credit.
- Late payments may also result in additional fees.
- Could eventually lead to default.

### **Default:**

- Failing to make a payment on your loan for 270 days.
- Adversely affects your credit.
- Adds 18 percent or more in collection costs to your loan balance.

## Consequences of Default

While a default is on your credit report, it may greatly affect your ability to rent an apartment or obtain employment, car loans, mortgages, credit cards, etc.

Other negative effects of default can include:

- Up to 15 percent of your wages being garnished.
- Your federal and state income tax refunds being seized.
- Losing your professional license(s).
- Legal action, including civil claims, liens, etc., being taken against you.
- Losing your eligibility for federal student aid and other benefit programs.

## *Forgiveness and Tax Benefits*

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## Cancellations

Loans may be discharged/cancelled for the following reasons:

- Death
- Total and permanent disability
- Closed school
- False loan certification
- School failed to repay a refund
- Spouse or parent of 9/11 victim

# Forgiveness

Loans may be forgiven in part. Some common reasons include:

- Americorps: visit [www.americorps.org](http://www.americorps.org) for more information
- Military personnel through Department of Defense
- Teacher Loan Forgiveness
- Public Service Loan Forgiveness
- Loan Forgiveness for Service in Areas of National Need
- Loan Forgiveness for Civil Legal Assistance Attorneys

Contact your servicer, or visit [www.studentaid.ed.gov](http://www.studentaid.ed.gov), for more information

## Public Service Loan Forgiveness

- Must have a Direct Loan. Students who borrowed through a lender may consolidate into the Direct Loan Program
- Must make 120 loan payments while holding a public service position. Must still be working in public service at the time of forgiveness.
- See <http://www.finaid.org/loans/publicservice.phtml> for information on public service jobs.
- See <http://www.ibrinfo.org/> for how IBR repayment option and the public service loan forgiveness option work together.

## Tax Benefits for Students

- Deduction for student loan interest
- Lifetime Learning Credit
- Employer education assistance
- Tuition and fees deduction

Refer to IRS Publication 970 for detailed information on each.

## Resources

- <http://www.asa.org/repay/calculators/ibr/default.aspx> - IBR calculator
- <http://www.asa.org/repay/options/default.aspx> - Repayment options and links to calculators for each
- <http://www.finaid.org/loans/publicservice.phtml> - Information on public service loan forgiveness
- <http://www.ibrinfo.org> – Up-to-date information on the Income Based Repayment option

*Congrats and Good Luck!*

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American Student Assistance®

American Student Assistance  
100 Cambridge Street, Suite 1600  
Boston, MA 02114

800.999.9080  
617.728.4265 F A X  
800.999.0923 T D D

[www.asa.org](http://www.asa.org)