STUDENT LOAN REPAYMENT STRATEGIES

NEW YORK UNIVERSITY
STERN SCHOOL OF BUSINESS

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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 advise.
Today’s discussion will help you to…

- Know your loan portfolio – loan types and relative cost
- Know deferment and forbearance options
- Know important decision points
- Know the cost before choosing a repayment plan
- Know your available resources
THE BASICS
Finding Your Federal and Private Student Loans

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

Private Student Loan
www.annualcreditreport.com
National Credit Bureau Agencies

EQUIFAX:  **Phone:** 800-685-1111  
**Website:** [www.Equifax.com](http://www.Equifax.com)

Experian:  **Phone:** 888-397-3742  
**Website:** [www.Experian.com](http://www.Experian.com)

TransUnion:  **Phone:** 800-916-8800  
**Website:** [www.TransUnion.com](http://www.TransUnion.com)
RELATIVE COST OF A STUDENT LOAN
Relative Costs of a Student Loan

- **Interest Rate**
  - What the lender charges for the use of money
  - The higher the interest rate, the more the loan will cost overall

- **Interest Capitalization**
  - Interest capitalization occurs when unpaid interest is added to the principal amount of a loan, increasing the principal amount outstanding
Loan Interest Rates

<table>
<thead>
<tr>
<th>Loan type</th>
<th>Undergraduates</th>
<th>Graduate Students</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Subsidized Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012-13</td>
<td>3.40%</td>
<td>N/A</td>
</tr>
<tr>
<td>2013-14</td>
<td>3.86%</td>
<td>N/A</td>
</tr>
<tr>
<td>2014-15</td>
<td>4.66%</td>
<td>N/A</td>
</tr>
<tr>
<td>2015-16</td>
<td>4.29%</td>
<td>N/A</td>
</tr>
<tr>
<td>Direct Unsubsidized Loans*</td>
<td>Pre AY 13-14: 6.8%</td>
<td>Pre AY 13-14: 6.8%</td>
</tr>
<tr>
<td></td>
<td>AY 13-14: 3.86%</td>
<td>AY 13-14: 5.41%</td>
</tr>
<tr>
<td></td>
<td>AY 14-15: 4.66%</td>
<td>AY 14-15: 6.21%</td>
</tr>
<tr>
<td></td>
<td>AY 15-16: 4.29%</td>
<td>AY 15-16: 5.84%</td>
</tr>
<tr>
<td>Graduate PLUS Loans*</td>
<td>---</td>
<td>Pre AY 13-14: 7.9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AY 13-14: 6.41%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AY 14-15: 7.21%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AY 15-16: 6.84%</td>
</tr>
<tr>
<td>Consolidation Loan</td>
<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>
</tr>
<tr>
<td>Private Loans, Institutional Loans</td>
<td>Many lenders offer both variable and fixed rate options. Interest rates range from 2.25% – 12.99%</td>
<td></td>
</tr>
</tbody>
</table>

Note: Rate for Grad PLUS loans issued under the Federal Family Education Loan Program is 8.50%

*Rates in effect for loans issued on or after July 1, 2006.

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 while in school/during deferments 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
UNDERSTANDING STUDENT LOAN REPAYMENT
Ways to Postpone Payments

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

Direct Stafford (Subsidized & Unsubsidized), and some private loans offer grace periods.

Federal Consolidation Loans and Grad PLUS loans do not have grace periods.
Understanding Grace Periods

Grace Period - period of time after a borrower graduates, leaves school or drops to less than half-time

- Payments may not be required during this period
- No application required
- Loan specific, varies according to loan – once used completely, it’s gone
  - Direct Subsidized and Unsubsidized loans have a six-month grace period
  - Private and Institutional loans: check your promissory note

- 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
- Federal student loan deferments are “borrower” specific, meaning eligibility is attached to the borrower and there is a max deferment time allotted for certain deferments
- The government pays interest on a borrower’s behalf for subsidized loans during authorized deferment periods

Common Types of Deferments:
- In-School
- Economic Hardship
- Unemployment
- Military
- Graduate Fellowship

Note: Unsubsidized loans continue to accrue interest for which the borrower is responsible. Unless the interest is paid by the borrower, it may be capitalized (added to your principal balance) at the end of the deferment period. To keep your total loan cost lower, you may want to consider paying all or some of the interest that accrues during this time.
Discretionary 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 at the end of the forbearance depending on the loan type and when the loan was disbursed. Additionally, there is a max forbearance time allotted.

- Capitalization of interest increases the amount to pay back, and will result in a higher payment amount after the forbearance. To keep your total loan cost lower, you may want to consider paying all or some of the interest that accrues during this time.

**TIPS:**

Be careful, the use of forbearance adds expense!

Forbearances can help you stay out of delinquency and default!
Repayment Plans

- **Standard Repayment (Federal and Direct Loans)**
  - 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 (Federal and Direct Loans)**
  - 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
Repayment Plans (Continued)

- **Income Sensitive Repayment (Federal Loans 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)

- **Extended Repayment (Federal and Direct Loans)**
  - 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 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
Federal Loan Repayment Comparison

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
<th>Monthly Payment Initial to Final Amounts</th>
<th>Projected Loan Forgiveness</th>
<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>120 months</td>
<td>$451 to $451</td>
<td>$0</td>
<td>$13,129</td>
<td>$54,129</td>
</tr>
<tr>
<td>Graduated</td>
<td>120 months</td>
<td>$257 to $772</td>
<td>$0</td>
<td>$16,618</td>
<td>$57,618</td>
</tr>
<tr>
<td>Extended Fixed</td>
<td>300 months</td>
<td>$259 to $259</td>
<td>$0</td>
<td>$36,752</td>
<td>$77,752</td>
</tr>
<tr>
<td>Extended Graduated</td>
<td>300 months</td>
<td>$198 to $396</td>
<td>$0</td>
<td>$43,671</td>
<td>$84,671</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR)</td>
<td>153 months</td>
<td>$279 to $451</td>
<td>$0</td>
<td>$19,026</td>
<td>$60,026</td>
</tr>
<tr>
<td>IBR for New Borrowers</td>
<td>219 months</td>
<td>$186 to $451</td>
<td>$0</td>
<td>$31,537</td>
<td>$72,537</td>
</tr>
<tr>
<td>Pay As You Earn</td>
<td>219 months</td>
<td>$186 to $451</td>
<td>$0</td>
<td>$31,537</td>
<td>$72,537</td>
</tr>
<tr>
<td>Income-Contingent Repayment (ICR)</td>
<td>162 months</td>
<td>$341 to $396</td>
<td>$0</td>
<td>$18,816</td>
<td>$59,816</td>
</tr>
</tbody>
</table>

Assumes $41,000 in graduate Direct Unsubsidized Loans over a 2 year period. Assumes current interest rate of 5.84% for all loans, annual income of $40,000 and household size of 1.

Source: https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action
### Federal Loan Repayment Comparison

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<thead>
<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
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<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>120 months</td>
<td>$911 to $911</td>
<td>$0</td>
<td>$28,352</td>
<td>$109,352</td>
</tr>
<tr>
<td>Graduated</td>
<td>120 months</td>
<td>$623 to $1,568</td>
<td>$0</td>
<td>$36,025</td>
<td>$117,026</td>
</tr>
<tr>
<td>Extended Fixed</td>
<td>300 months</td>
<td>$537 to $537</td>
<td>$0</td>
<td>$79,959</td>
<td>$160,959</td>
</tr>
<tr>
<td>Extended Graduated</td>
<td>300 months</td>
<td>$425 to $792</td>
<td>$0</td>
<td>$93,848</td>
<td>$174,848</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR)</td>
<td>297 months</td>
<td>$279 to $911</td>
<td>$0</td>
<td>$102,521</td>
<td>$163,521</td>
</tr>
<tr>
<td>IBR for New Borrowers</td>
<td>240 months</td>
<td>$186 to $613</td>
<td>$94,981</td>
<td>$87,979</td>
<td>$87,979</td>
</tr>
<tr>
<td>Pay As You Earn</td>
<td>240 months</td>
<td>$186 to $613</td>
<td>$94,981</td>
<td>$87,979</td>
<td>$87,979</td>
</tr>
<tr>
<td>Income-Contingent Repayment (ICR)</td>
<td>199 months</td>
<td>$471 to $803</td>
<td>$0</td>
<td>$56,428</td>
<td>$137,428</td>
</tr>
</tbody>
</table>

Assumes $81,000 in graduate loans over a 2 year period ($41,000 unsubsidized and $40,000 GradPLUS). Assumes current interest rate of 5.84% for all unsubsidized loans and 6.84% for all GradPLUS Loans, annual income of $40,000 and household size of 1.

Source: https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action
Repayment Plans (Continued)

- **Income-Contingent Repayment (Direct Loans Only)**
  - Payment is based on income
  - Student loan payments will not exceed 20% of “discretionary income”
  - Negative amortization is allowed
  - Up to 25 years to repay
  - Balance remaining after 25 years’ worth of payments can be forgiven (reportable as income)

- **Income-Based Repayment (Federal and Direct Loans)**
  - Available to federal loan borrowers experiencing financial hardship
  - Student loan payments will not 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 (reportable as income)

- **Pay As You Earn – PAYE (Direct Loans)** 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
  - Received a Direct loan on or after October 1, 2011
  - Student loan payments will not exceed 10% of “discretionary income”
  - Similar to Income Based Repayment, 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 qualifying repayment (reportable as income)
### *New: Revised Pay As You Earn (REPAYE)*

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Eligible Loans</th>
<th>Monthly Payment &amp; Timeframe</th>
<th>Quick Comparison</th>
</tr>
</thead>
</table>
| Revised Pay As You Earn Repayment Plan (REPAYE) Effective December 2015 | Any outstanding loan made to a borrower under the Direct Loan Program or the FFEL Program (if consolidated into a Direct Consolidation Loan) except for a defaulted loan, a Direct PLUS Loan or Federal PLUS Loan made to a parent borrower, or a Direct Consolidation Loan or Federal Consolidation Loan that repaid a Direct PLUS Loan or Federal PLUS Loan made to a parent borrower | • Generally, maximum monthly payments will be 10 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence divided by 12  
• Your monthly payment amount can change each year depending on income changes  
• Up to 25 years  
  • Undergraduate Loans Only: 20 years  
  • At Least One Graduate Loan: 25 years | • Available to all Direct Loan borrowers regardless of when they took out the loan  
• Monthly payments will be lower than payments under the 10-year standard plan  
• You’ll pay more for your loan over time than you would under the 10-year standard plan  
• If you have not repaid your loan in full after you made the equivalent of 20 years (undergraduate/ 25 for graduate) of qualifying monthly payments, any outstanding balance on your loan will be forgiven  
• If the monthly payment on a borrower’s subsidized or unsubsidized loan does not cover the accrued interest, the amount of interest charged is limited to 50% of the remaining accrued interest. (No interest is charged to subsidized loans that meet this criteria for a consecutive three-year period before the 50% limit applies.)  
• You may have to pay income tax on any amount that is forgiven |

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
- Residency and internship deferments may be available
- Forbearances may be available
  - Consult your loan servicer

TIP:
Refer to your promissory note and/or your servicer to determine your available options
Federal Loan Repayment Plans (Continued)

- **Loan Consolidation**
  - Provides the ability for borrowers to consolidate all of their federal loans into one new loan
  - FFEL and Direct Stafford Loans (Subsidized and Unsubsidized), 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, Pay as you Earn, Revised Pay as you Earn
  - Benefits:
    - Longer repayment period
    - Lower monthly payment
    - Single Servicer
Student Loan Interest Deduction

- 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 2015 are shown in the table below:

<table>
<thead>
<tr>
<th></th>
<th>Full Deduction</th>
<th>Partial Deduction</th>
<th>No Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single</strong></td>
<td>Modified Adjusted Gross Income is &lt;= $65,000</td>
<td>$60,001 to $79,999</td>
<td>$80,000 or more</td>
</tr>
<tr>
<td><strong>Married</strong></td>
<td></td>
<td>$130,001 to $159,999</td>
<td>$160,000 or more</td>
</tr>
<tr>
<td><strong>Filing jointly</strong></td>
<td>Modified Adjusted Gross Income is &lt;= $130,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


NOTE: For information about your specific tax situation and any tax advice, please contact a tax professional.
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
Resources

- School Financial Aid
- 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:
  - Great Lakes: 800-236-4300  www.mygreatlakes.org
  - Navient: 800-722-1300  www.navient.com
  - Nelnet: 888-486-4722  www.nelnet.com
<table>
<thead>
<tr>
<th>Final Tips for Managing Your Loans and Finances</th>
</tr>
</thead>
</table>
| **Make payments automatically**  
You won’t forget to make your payment and you could also get a reduction on your interest rate. |
| **Make payments each and every month**  
Resist putting off your payments, as deferment or forbearance typically means you’ll pay more over the life of the loan. |
| **Pay a little extra each month**  
Extra payments can help you pay off your loan faster. |
| **Create a budget**  
Track your monthly expenses to help you cut out unnecessary items and pay down your debt even faster. |
| **If you fall behind, get help**  
Call your loan servicer to discuss your options. Changes to your payment plan may provide the flexibility you need. |
| **Build an emergency fund**  
Aim to save $500 to $1,000 to cover unexpected expenses. |
| **Beware of scams**  
Fraudulent companies might claim to offer easy ways to lower your loan payments and even try to charge you fees. If you have doubt about a service offered, contact your servicer. |
| **Don’t miss important information**  
Keep your loan servicers updated with any change in mailing address, email, and phone numbers so they can keep in touch with you. |

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Questions?