

LOAN REPAYMENT DEMYSTIFIED

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AGENDA

- Loan basics
- Overview of repayment plans
- Basics of consolidation
- Deferment, forbearance, discharge, forgiveness & cancellation options
- Repayment Strategies
- Default
- To do list & helpful resources



DATES TO REMEMBER

AUGUST 1, 1992



NOVEMBER 8, 1994



MAY 5, 1997



SEPTEMBER 30, 2011



THREE OF THESE THINGS ARE JUST LIKE THE OTHER...



What do they have in common?

- They are mandated by government

ONE OF THESE THINGS IS NOT THE SAME...



Why is it different?

- I decided when that date happened.

YOU HAVE THAT POWER, TOO





LOAN BASICS

WHERE CAN I OBTAIN INFORMATION ON MY FEDERAL LOAN(S)?

- KUMC Financial Aid & Scholarships Office
- National Student Loan Database System
 - <https://studentaid.gov/loan-simulator/>
 - Subsidized, Unsubsidized & Grad PLUS
- Heartland ECSI – www.heartlandecsi.net
 - KU Med Perkins & KU Endowment Assoc. Loans
- Private Loans – www.annualcreditreport.com

WHAT HAPPENS TO MY LOAN(S) WHEN I LEAVE SCHOOL?

Stafford loan:

- Enter a 6-month grace period, or
- Enter repayment*

Perkins loan:

- Enter a 9-month initial grace period, or
- Enter a 6-month post-deferment grace period

Grad PLUS loan:

- Enter a 6-month deferment, or
- Enter repayment*

Consolidation loan:

- Enter repayment
- * Only if the loans grace period was previously used completely or consolidated

WHAT SHOULD I EXPECT FROM MY LOAN HOLDER?

- Outlines the terms of the loan(s) borrowed
- Provides the repayment options available
- Establishes the first payment due date

WHAT DOES MY LOAN HOLDER EXPECT FROM ME?

- Select a repayment plan
- Make timely payments on your loan(s)
- Provide updated contact information whenever it changes
- Contact them whenever you are having difficulty managing repayment

CAN I PREPAY ON MY LOAN?

- Yes!
 - If sending in a prepayment, make sure you inform the lender to apply the prepayment to the principal of the loan balance
 - There is no prepayment penalty



OVERVIEW OF REPAYMENT PLANS

WHAT REPAYMENT PLANS ARE AVAILABLE?

- Standard
- Graduated
- Extended
- Revised Pay As You Earn (REPAYE)
- Pay As You Earn (PAYE)
- Income-Based (IBR)
- Income-Based for New Borrowers
- Income-Contingent

HOW DO THE REPAYMENT PLANS WORK?



Standard

Equal monthly payments



Graduated

Payments increase over time



Extended

Available for borrowers with over \$30,000 in debt
Allows up to 25 years to repay loan



REPAYE/ PAYE/ IBR/ IBR for New Borrowers/ Income-Contingent (ICR)

Must have a partial financial hardship to qualify
Adjusted annually
Forgiven amount of loans are taxable

SAMPLE MONTHLY PAYMENT FOR \$179,000 LOAN @ 5.84%

| Average | Standard Repayment Plan | Extended Repayment Plan |
|--|---|--|
| Average loan debt for MD Class of 2019 | 10-yr term <ul style="list-style-type: none">• Monthly payment: \$1,969• Interest paid: \$57,320• Total cost of loan: \$236,320 | 25-yr term <ul style="list-style-type: none">• Monthly payment: \$1,132• Interest paid: \$160,455• Total cost of loan: \$339,455 |

REVISED PAY AS YOU EARN (REPAYE)

- Experiencing a “partial financial hardship”
- Limits payments to 10% of discretionary income
- Payment period before loan is forgiven:
 - 20 years – if you only borrowed undergrad loans
 - 25 years – if you borrowed 1 or more grad/professional loans
 - Remaining balance and accrued interest is forgiven (may be taxable, though)
- Only eligible for Direct Loans (not parent PLUS)
- Interest subsidy – 50% of interest not covered by payment on unsubsidized loans

“PAY AS YOU EARN” (PAYE)

- Available to students both who meet both:
 - New federal loans borrower on/after 10/1/07
 - Disbursed at least one federal loan on/after 10/1/11
- Limits payments to 10% of discretionary income
- Payments capped at 10 year standard repayment
- Payment period is capped at 20 years
- Subsidized loans – interest subsidy for 1st 3 years
- Capitalization limited to 10% of accrued interest
- Include spouse’s income if you file jointly

INCOME-BASED REPAYMENT (IBR)

- Available to Stafford, Grad PLUS, and certain consolidation borrowers
 - Depends on total indebtedness
- Repayment term can exceed 10 years, regardless of the amount of the borrower's loan debt
- 25 year repayment
- Payments = 15% of discretionary income
- Interest capitalizes if you leave plan – no limit to amount of capitalization
- Include spouse's income if you file jointly

INCOME-BASED REPAYMENT FOR NEW BORROWERS

- Must be new borrower on July 1, 2014 or later
 - Never borrowed federal loans before that date, or
 - Repaid all federal loans before that date
- Similar to IBR, except:
 - After 20 years (240 eligible payments), any remaining balance and accrued interest will be forgiven (may be taxable, though)
 - Payments = 10% of discretionary income
- Compare all loan repayment options - <https://studentaid.gov/manage-loans/repayment/plans#estimator>

PUBLIC SERVICE LOAN FORGIVENESS



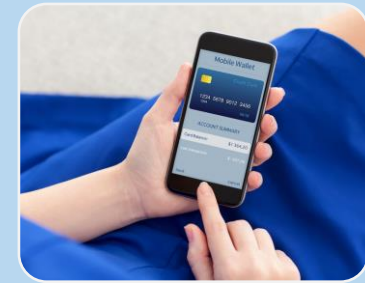
Eligible
Loans
(Direct
Loans)



Eligible
Payments
(Income-
Driven
Repayment)



Eligible
Employer -
501(c)(3)
nonprofit or
government



Eligible
Number of
Payments –
120
Qualifying
Payments

PSLF HELP TOOL

- <https://studentaid.gov/pslf/>
- Search for a qualifying employer
- Determine actions needed
- Generate form to submit to servicer

SAMPLE MONTHLY PAYMENT FOR \$179,000 LOAN @ 5.84%

| Repayment Plan | Years in Repayment | Monthly Payments | Total Amount |
|--------------------|--------------------|------------------|--------------|
| Standard | 10 | \$1,969 | \$236,320 |
| Extended | 25 | \$1,132 | \$339,455 |
| REPAYE | 25 | \$219 | \$151,714 |
| PAYE | 20 | \$219 | \$101,501 |
| IBR | 25 | \$328 | \$227,571 |
| IBR (New Borrower) | 20 | \$219 | \$101,501 |
| Income-Contingent | 25 | \$542 | \$345,466 |

*Based on
single person
living in
continental
U.S. making
\$45,000/year

SAMPLE MONTHLY PAYMENT FOR \$179,000 LOAN @ 5.84%

| Repayment Plan | Years in Repayment | Monthly Payments | Total Amount |
|--------------------|--------------------|------------------|--------------|
| Standard | 10 | \$1,969 | \$236,320 |
| Extended | 25 | \$1,132 | \$339,455 |
| REPAYE | 25 | \$53 | \$84,768 |
| PAYE | 20 | \$53 | \$51,289 |
| IBR | 25 | \$80 | \$127,152 |
| IBR (New Borrower) | 20 | \$53 | \$51,289 |
| Income-Contingent | 25 | \$321 | \$256,205 |

*Based on **married couple**, filing jointly, with **2 kids** and living in continental U.S. making \$45,000/year



THE BASICS OF CONSOLIDATION

OVERVIEW

- Consolidation enables you to bundle one or more federal student loans into a single new loan
- At time of consolidation, your consolidating lender pays off the outstanding balances of the loans you include in the consolidation
- You must be in your grace period or in repayment on each loan being consolidated

HOW DO I QUALIFY?

- You must be in your grace period or in repayment on each loan being consolidated
- You can still obtain a Consolidation loan if you are delinquent or in default on one or more of your existing loans

WHAT LOANS MAY BE CONSOLIDATED?

Regular Consolidation

- Federal Family Education Loans (FFEL)
- Federal Direct Loans (DL)
- Federal Perkins Loans

CAN I EVER “RECONSOLIDATE”?

- Generally, no
- You may only reconsolidate if you consolidate an existing Consolidation loan with another loan outside the Consolidation loan

LOAN CONSOLIDATION CHANGES

- <https://studentaid.gov/app/launchConsolidation.action>
- You can choose from nine servicers:
 - CornerStone, FedLoan Servicing (PHEAA), Granite State – GSMR, Great Lakes Educational Loan Services, HESC/Edfinancial, MOHELA, Navient, Nelnet or OSLA Servicing
- You can select a repayment plan online, including “income-driven” plans

REPAYMENT PERIODS

Maximum repayment periods for Consolidation loans

| Sum of Consolidation loan balance plus balances of other education loans | Maximum repayment period |
|--|--------------------------|
| Less than \$7,500 | 10 years |
| \$7,500 or more, but less than \$10,000 | 12 years |
| \$10,000 or more, but less than \$20,000 | 15 years |
| \$20,000 or more, but less than \$40,000 | 20 years |
| \$40,000 or more, but less than \$60,000 | 25 years |
| \$60,000 or more | 30 years |

HOW IS THE INTEREST RATE CALCULATED?

It is the weighted average of interest rates on loans being consolidated.

Legislation from fall 2013 removed the 8.25% cap on the consolidation loan interest rate.

LOAN CONSOLIDATION CALCULATOR

<https://studentaid.gov/app/launchConsolidation.action>

- Put in loan amounts and current interest rates
- Provides consolidation loan interest rate and expected monthly payment

THE INTEREST RATE CYCLE

- Interest rates change every July 1
- Announced the preceding May
- Gives you a chance to see what rates will be and whether to wait
- Certain (older) Stafford loan interest rates are lower during grace period and deferment
- It may be advantageous for Stafford borrowers to consolidate during one of these times

THE INTEREST RATE CYCLE (CONT.)

For loans disbursed on or after 7/1/06

- Loans have a fixed rate over the life of the loan
- These rates apply at any time: while in-school, in grace, and in periods of deferment

GRACE PERIODS

- No payments required
- No interest accrues until after grace period ends:
 - Subsidized Loans
 - Perkins Loans

FACTORS TO CONSIDER

May lose:

- Some or all of grace period
- Certain borrower benefits
 - Federal Perkins Loans
 - Deferment subsidy when consolidated
- Certain lender incentives

**DEFERMENT,
FORBEARANCE,
DISCHARGE,
FORGIVENESS &
CANCELLATION
OPTIONS**

DEFERMENT

- A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal
- Type of deferments available to borrowers:
 - In-school
 - Unemployment
 - Economic hardship
 - Military
- Contact your loan servicer

FORBEARANCE

- A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments
- Borrower is liable for interest that accrues on the loan, even subsidized loans
- Up to 12 month increments

DISCHARGE

- The release of a borrower or any cosigner from all or a portion of his or her loan obligation
- Types of FFEL and Direct loan discharges
 - Total and Permanent Disability
 - Death
 - Unpaid Refund
 - False certification by the school
 - False certification due to identity theft
 - Closed School
 - Parents and spouses of September 11, 2001 victims
 - Bankruptcy (rare)



REPAYMENT STRATEGIES

SIGN UP FOR AUTOMATIC PAYMENTS

- Interest rate discount – 0.25%
- Avoid late payments
 - No late fees
 - Increase your credit score*

MAKE PAYMENTS IN GRACE PERIOD

- Simple interest while in-school and during grace period
 - Interest based on original balance

- Interest capitalizes at end of Grace Period
 - Interest upon interest

- Calculator at <http://www.youcandealwithit.com/borrowers/calculators-and-resources/calculators/grace-period-calculator.shtml>

PAY MORE THAN THE MINIMUM

- Pay every paycheck (every two or four weeks)
 - Make one extra full payment per year (13 versus 12 monthly)
- Pay an extra amount monthly
 - Minimize interest and pay off the loan faster
 - Calculator at <http://www.youcanddealwithit.com/borrowers/calculators-and-resources/calculators/debt-repayment-calculator.shtml>

DEBT SNOWBALL

- Pay the minimum on all loans but one
- Target extra payments on that one loan*
 - Select either:
 - Loan with highest interest rate, or
 - Loan with lowest balance owed
- After the one loan is paid off, roll extra payments to another loan until everything is paid off



DEFAULT

DEFAULT

- Communication is key
 - Lenders are willing to work with you to prevent this from happening in the first place
- Ramifications
 - Huge red-flag on your credit report
 - Can't renew your state professional licensure
 - Government can garnish wages and tax refunds



TO DO LIST AND HELPFUL RESOURCES

TO DO LIST - NOW

- Access your loan history –
 - <https://studentaid.gov/loan-simulator/>
- Sign up for online account access with all loan servicers
- Decide if you want to consolidate
 - Compare repayment plans by using a calculator
- Finalize any last-minute loans
- Draft a personal budget

TO DO LIST – AFTER GRADUATION

- Update everyone with your new contact info
 - Servicer
 - School

- Begin consolidation paperwork
 - Effective date of 6 months after graduation

- Ask for a deferment (for previously consolidated loans)

HELPFUL RESOURCES

- Federal Student Loan Servicing
 - Links to loan history
 - <https://studentaid.gov/loan-simulator/>
 - Links to federal loan servicers
 - <https://studentaid.gov/manage-loans/repayment/servicers>
 - Questions about loan consolidation
 - <https://studentaid.gov/manage-loans/consolidation>
- Federal Student Aid Info Center - (800) 433-3243

FREEDOM FROM STUDENT LOAN DEBT...

What's your date?



CONTACT

Student Financial Aid
G035 Dykes Library
financialaid@kumc.edu
(913) 588-5170

Student Financial Accounting
120-B Support Services Facility
StudentAccounting@kumc.edu
(913) 588-2590