SOLVING THE STUDENT LOAN REPAYMENT PUZZLE

November 17, 2022
Scott Sponholtz, Financial Aid Director
AGENDA

Loan basics
Overview of repayment plans
Basics of consolidation
One-Time Debt Forgiveness
Deferment, forbearance, discharge, forgiveness & cancellation options
Repayment Strategies
Default
To do list & helpful resources
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/](https://studentaid.gov/loan-simulator/)
  - Subsidized, Unsubsidized & Grad PLUS

- Heartland ECSI – [www.heartlandecsi.net](http://www.heartlandecsi.net)
  - KU Med Perkins & KU Endowment Assoc. Loans
  - School Code – 2P

- Private Loans – [www.annualcreditreport.com](http://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

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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
  - COVID-19 loan payment pause & 0% interest
    - Began 3/13/20
    - Extended numerous times
    - Payments & interest set to resume 1/1/23
      - https://studentaid.gov/announcements-events/covid-19
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?

<table>
<thead>
<tr>
<th>Plan</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>Equal monthly payments</td>
</tr>
<tr>
<td>Graduated</td>
<td>Payments increase over time</td>
</tr>
<tr>
<td>Extended</td>
<td>Available for borrowers with over $30,000 in debt</td>
</tr>
<tr>
<td></td>
<td>Allows up to 25 years to repay loan</td>
</tr>
<tr>
<td>REPAYE/ PAYE/IBR/ IBR for New Borrowers/Income-Contingent (ICR)</td>
<td>Must have a partial financial hardship to qualify</td>
</tr>
</tbody>
</table>
### Average

- Average loan debt for MD Class of 2022

### Standard Repayment Plan

- **10-yr term**
  - Monthly payment: $2,131
  - Interest paid: $69,701
  - Total cost of loan: $255,701

### Extended Repayment Plan

- **25-yr term**
  - Monthly payment: $1,213
  - Interest paid: $177,765
  - Total cost of loan: $363,765

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25 Year Repayment vs. 10 Year Repayment

Monthly payment approx. 40% lower & amount repaid is approx. 40% higher
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
PRES. BIDEN DEVELOPING NEW INCOME DRIVEN REPAYMENT PLAN

### Highlights

1. Poverty guidelines
   - 150% to 225%

2. Payment Plan %
   - 10% to 5%

3. Cover unpaid interest

### Category REPAYE / PAYE Biden’s New Plan

<table>
<thead>
<tr>
<th>Category</th>
<th>REPAYE / PAYE</th>
<th>Biden’s New Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Adjusted Gross Income</td>
<td>$4,830</td>
<td>$4,830</td>
</tr>
<tr>
<td>- Poverty Guideline</td>
<td>- $1,700</td>
<td>- $2,550</td>
</tr>
<tr>
<td>= Discretionary Income</td>
<td>= $3,130</td>
<td>= $2,280</td>
</tr>
<tr>
<td>x Payment Plan %</td>
<td>x 10%</td>
<td>x 5%</td>
</tr>
<tr>
<td>= Monthly Payment</td>
<td>= $310 / month</td>
<td>= $110 / month</td>
</tr>
</tbody>
</table>

Biden’s New IDR Plan implementation & details TBD
Example above estimates based on $58K single borrower, 2022 poverty guidelines & with numbers rounded to nearest ten dollars
PUBLIC SERVICE LOAN FORGIVENESS*

<table>
<thead>
<tr>
<th>Eligible Loans (Direct Loans)</th>
<th>Eligible Payments (Income-Driven Repayment)</th>
<th>Eligible Employer - 501(c)(3) nonprofit or government</th>
<th>Eligible Number of Payments – 120 Qualifying Payments</th>
</tr>
</thead>
</table>

* No taxable event when forgiveness is reached
PSLF HELP TOOL

- [https://studentaid.gov/pslf/](https://studentaid.gov/pslf/)
- Search for a qualifying employer
- Determine actions needed
- Generate form to submit to servicer
### SAMPLE MONTHLY PAYMENT FOR $186,000 LOAN @ 5.625%

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>REPAYE</th>
<th>PAYE</th>
<th>IBR Before 7/1/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Repaid</td>
<td>$312,199 16 yrs.</td>
<td>$329,385 17 yrs.</td>
<td>$293,227 13 yrs.</td>
</tr>
<tr>
<td>Monthly Pymt</td>
<td>$309-$2,192</td>
<td>$309-$2,131</td>
<td>$464-$2,131</td>
</tr>
<tr>
<td>Total Interest</td>
<td>$126,199</td>
<td>$143,385</td>
<td>$107,227</td>
</tr>
<tr>
<td>Forgiveness Years / Amount</td>
<td>25 / $0</td>
<td>20 / $0</td>
<td>25 / $0</td>
</tr>
<tr>
<td>PSLF (10 Years)</td>
<td>$128,839</td>
<td>$140,486</td>
<td>$78,382</td>
</tr>
<tr>
<td>Monthly Pymt Cap</td>
<td>N/A</td>
<td>$2,131</td>
<td>$2,131</td>
</tr>
</tbody>
</table>

*Single person making $58,000/year residency & $200K attending*
SAMPLE MONTHLY PAYMENT FOR $186,000 LOAN @ 5.625%

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>REPAYE</th>
<th>PAYE</th>
<th>IBR Before 7/1/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Repaid</td>
<td>$334,891 19 yrs.</td>
<td>$357,593 20 yrs.</td>
<td>$302,651 14 yrs.</td>
</tr>
<tr>
<td>Monthly Pymt</td>
<td>$128-$2,115</td>
<td>$128-$2,131</td>
<td>$192-$2,131</td>
</tr>
<tr>
<td>Total Interest</td>
<td>$148,891</td>
<td>$173,080</td>
<td>$116,651</td>
</tr>
<tr>
<td>Forgiveness Years / Amount</td>
<td>25 / $0</td>
<td>20 / $1,486</td>
<td>25 / $0</td>
</tr>
<tr>
<td>PSLF (10 Years)</td>
<td>$155,612</td>
<td>$169,569</td>
<td>$96,935</td>
</tr>
<tr>
<td>Monthly Pymt Cap</td>
<td>N/A</td>
<td>$2,131</td>
<td>$2,131</td>
</tr>
</tbody>
</table>

*Married couple, filing jointly, with 2 kids making $58,000/year residency & $200K attending
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.

- Some people consolidate in grace period – jump starts repayment & maximizes low payments counting towards PSLF.
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)
  - Not offered since 2009-10

- Federal Direct Loans (DL)

- Federal Perkins Loans
  - Not offered since 2017-18
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 CALCULATOR

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

- Put in loan amounts and current interest rates
- Provides consolidation loan interest rate and expected monthly payment
- You can choose from six servicers:
  - Aidvantage, Great Lakes Educational Loan Services, HESC/EdFinancial, MOHELA, Nelnet or OSLA Servicing
- You can select a repayment plan online, including “income-driven” plans
## REPAYMENT PERIODS

<table>
<thead>
<tr>
<th>Sum of Consolidation loan balance plus balances of other education loans</th>
<th>Maximum repayment period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $7,500</td>
<td>10 years</td>
</tr>
<tr>
<td>$7,500 or more, but less than $10,000</td>
<td>12 years</td>
</tr>
<tr>
<td>$10,000 or more, but less than $20,000</td>
<td>15 years</td>
</tr>
<tr>
<td>$20,000 or more, but less than $40,000</td>
<td>20 years</td>
</tr>
<tr>
<td>$40,000 or more, but less than $60,000</td>
<td>25 years</td>
</tr>
<tr>
<td>$60,000 or more</td>
<td>30 years</td>
</tr>
</tbody>
</table>
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.
THE INTEREST RATE CYCLE

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
  - Primary Care 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
PRES. BIDEN’S ONE-TIME DEBT FORGIVENESS
ONE-TIME DEBT RELIEF BASICS

One-time program to cancel federal student loans for low-middle income families

Up to $20,000 of relief, if you received a Pell Grant in college

Up to $10,000 of relief, if you did not receive a Pell Grant in college

Some states may tax debt relief - https://www.nerdwallet.com/article/loans/student-loans/will-your-state-tax-your-canceled-student-debt
# DEBT RELIEF ELIGIBILITY

<table>
<thead>
<tr>
<th>Eligible Loans</th>
<th>Eligible Income</th>
<th>Maximum Amount of Debt Relief</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct</td>
<td>$125K Single</td>
<td>Up to $20K</td>
</tr>
<tr>
<td>FFEL held by ED</td>
<td>$250K Married</td>
<td>If you ever received Pell Grant</td>
</tr>
<tr>
<td>Perkins held by ED</td>
<td>2020 or 2021 Whichever is lower</td>
<td>Up to $10K</td>
</tr>
<tr>
<td>Disbursed on/before 6/30/22</td>
<td>Parent income if dependent 7/1/21-6/30/22</td>
<td>Other loan borrowers</td>
</tr>
</tbody>
</table>
ONE-TIME DEBT RELIEF ACTIONS

Lawsuits blocking action (effective 11/14/22)

Subscribe to ED for updates - https://www.ed.gov/subscriptions, select Federal Student Loan Borrower Updates

If courts allow, apply at https://studentaid.gov/debt-relief/application

Financial Aid webinar at https://youtu.be/k4_3oO3Oxuw.xml

Can opt out of relief – if state taxes outweigh debt relief
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*

* https://www.experian.com/blogs/ask-experian/credit-education/improving-credit/improve-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

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
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

https://www.ramseysolutions.com/debt/how-the-debt-snowball-method-works
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
LOAN FORGIVENESS PROGRAMS

- MD
  - https://systems.aamc.org/fed_loan_pub/index.cfm?fuseaction=public.welcome

- Perkins Loan Cancellation
  - Nurses, OT, PT, Respiratory Therapist, Speech-Language Pathologists, Clinical Lab Tech/Med Lab Tech
    - https://heartland.ecsi.net/docs/schoolforms/2p/2p_canc.pdf

- National Health Service Corps
  - Doctors & Nurse Practitioners
    - https://nhsc.hrsa.gov/loan-repayment/nhsc-loan-repayment-program
SOLVING THE STUDENT LOAN PUZZLE...

What’s your date?
Student Financial Aid
Go35 Dykes Library
FinancialAid@kumc.edu
(913) 588-5170

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