

I graduated with student loans. NOW WHAT?

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About Karen Chan

- 25 years providing unbiased financial education
- A Certified Financial Planner™ who does not practice but uses that knowledge to educate
- Does not sell any financial products or services.

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Today's plan

- Types of Loans
 - *Figuring out what you have*
- Types of repayment plans
- How to choose the right repayment plan (Decision trees)
- Loan forgiveness programs
- Curing a default

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General resources

These are your “go-to” sources for information about student loans. Use the search tools to find answers to your questions.

- <https://studentaid.ed.gov/> to find answers to almost anything related to Federal student loans.
- <https://studentloans.gov> to take action on your loans, such as consolidating, applying for an income-driven repayment plan, or locating forms.

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What types of loans do you have?

- Federal
 - *National Student Loan Data System for Students - NSLDS*
 - https://nslds.ed.gov/nslds/nslds_SA/
 - SSN, birthdate, PIN from FAFSA
 - Not listed: PLUS loan in parent's name
- Private
 - www.annualcreditreport.com
 - *One report per year from each of the 3 major credit reporting agencies*

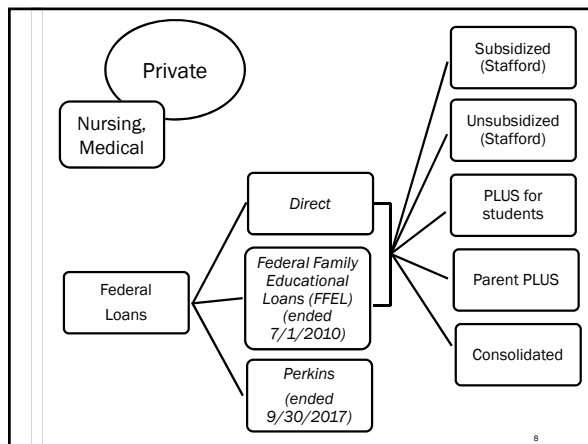
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KNOWING THE LOAN SERVICER DOESN'T TELL YOU WHAT TYPE OF LOAN YOU HAVE

Example: Navient could be a servicer for any type of Federal loan, or a lender for a private loan.

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Federal Loans		Private loans	
Direct loans (William D. Ford Federal Direct Loan)	Federal Family Educational Loans (FFEL)	Perkins Loans	Anything other than Federal loans
Sole source of Federal loans since 7/1/2010 (except Perkins).	No loans made after 7/1/2010	No new loans after 9/30/2017.	Commercial lenders (bank, Sallie Mae, Navient, colleges & universities)
<ul style="list-style-type: none"> Direct Subsidized Direct Unsubsidized Direct PLUS loans made to students Direct PLUS loans made to parents Direct Consolidation loans 	<ul style="list-style-type: none"> Subsidized Federal Stafford Unsubsidized Federal Stafford FFEL PLUS loans made to students FFEL PLUS loans made to parents FFEL Consolidation loans 	A federal loan awarded and managed by your school	Federal loans can be refinanced using a private loan, but you give up Federal loan protections and forgiveness programs.



Private loans

- Governed by agreement: Read your promissory note
- Interest: variable or fixed. Cap?
- Default in as little as 1-2 months
- No forgiveness programs, interest subsidies, etc.
- Co-signer
- Can be privately refinanced but not consolidated into Federal Direct Loan.

Perkins loans

- School is the lender. Check with them for repayment, deferment, forgiveness plans.
- Can consolidate into Federal Direct Loan.
 - Will lose Perkins features

FROM HERE ON, FOCUS ON FEDERAL DIRECT & FFEL LOANS

“Loan Status”

- Grace period after leave school
- Repayment
- Deferment – no payments
- Forbearance – no or reduced payments
- Delinquent
- Default – 270 days

Deferment

- Student - half-time or greater; may be automatic
- economic hardship, unemployed, active duty military; must request
- Subsidized loans (incl. portion of consolidated loans) & Perkins loans: the government **may** pay interest
- Interest may be capitalized

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Forbearance

- For economic hardship, medical residency program, AmeriCorps or Peace Corps volunteer, etc.
- Loan servicers must grant forbearance for some situations. For others, the loan services has the discretion to grant or not.
- You are responsible for all interest.

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Deferment & Forbearance

- Can only be used for a limited time. Therefore, only a temporary fix
- Permanent fix: choose repayment plan w/ lower payment

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Direct Consolidation Loan

- Uses a weighted average of the interest rates of consolidated loans
 - *Variable will become fixed*
- Can consolidate only once, unless have new loans to add
- Portion of consolidation loan that came from a subsidized loan will retain some or all of those benefits

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Refinance with a private loan

- Interest rate will be based on your credit history
- **CFPB:**
 - If you have a secure job, emergency savings, strong credit, are unlikely to benefit from forgiveness options, then refinancing into a private student loan may be a choice worth considering.*
- In other words, you don't need protections, income-driven repayment plans, or debt forgiveness offered by Federal Direct loans

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Comparing repayment plans

- *Interest rate will not change
- How much are monthly payments?
 - *Fixed, graduated, based on income?*
- How long until the loan is paid off?
 - *Longer = smaller payments, more interest*
- How much interest you will pay in total?
- Will any remaining balance be forgiven?

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Types of repayment plans

- Balance-based
- Income-based

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Balance-Based Repayment Plans

All borrowers and all types (Federal) loans, including Parent PLUS, are eligible for these plans.

- Standard – fixed payments for 10 years
 - Pay off quickly and minimize interest owed
- Graduated – increasing payments for up to 10 years
 - Consolidation loans: 30 years
 - Will income & ability pay also increase?
- Extended – if you owe more than \$30k, up to 25 years to pay, with either fixed or graduated payments

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Income-Driven Plans

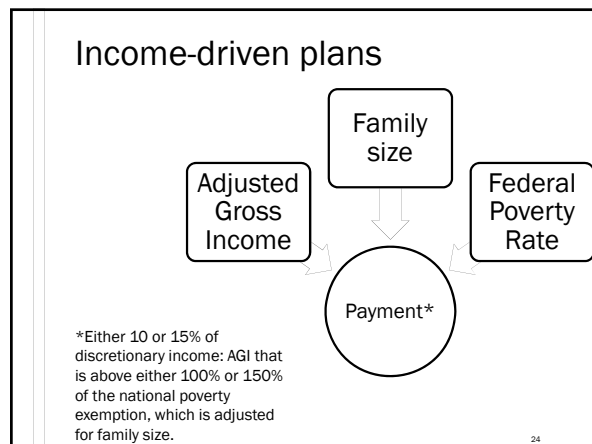
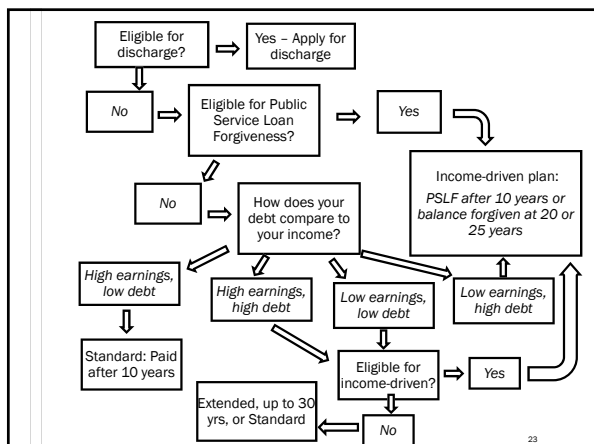
- Most beneficial if low income compared to student loan debt, and student loan debt is high
- Remaining balance at end of loan period is forgiven.
- Forgiven amount is taxable income.

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Choosing the Right Repayment Plan

- Eligible for discharge?
 - Permanent, total disability, death, problems with school
- Eligible for Public Service Loan Forgiveness?
- How does your debt compare to your income?
 - Eligible for income-driven plan?

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Other common features of income-driven plans

- Must apply and recertify annually.
 - Payments may change. If income drops or family increases, submit info ASAP
- Balance forgiven after 20 or 25 yrs
 - Taxable income
- Payments may not cover interest ⇒ negative amortization
 - Interest capitalized when loan status or plan changes; may increase payments

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Four income-driven plans vary as to...

- How payment is calculated: 1) 10 or 15% of income above 2) 100% or 150% of poverty level
- Married couples can control whether incomes & student loans of both are considered by filing taxes separately vs MFJ
- Loan term/forgiveness at either 20 or 25 years
- Cap on payments – cannot be more than payments on standard plan
- Limits on capitalized interest

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Income-driven plans, from best to worst terms for most

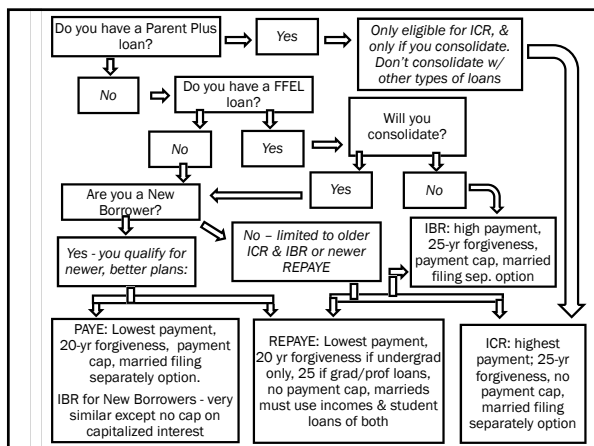
- Pay As You Earn (**PAYE**) – must qualify
- Revised Pay As You Earn (**REPAYE**)
- Income-Based Repayment Plan (**IBR**) & Income-Contingent Repayment Plan (**ICR**)
 - FFEL must use IBR (consolidate!)
 - Parent PLUS only eligible for ICR, and only if consolidate
 - **IBR for New Borrowers** – choose PAYE instead

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PAYE: Must be a New Borrower

- No outstanding balance on a Direct Loan or FFEL Program loan when you received a Direct Loan or FFEL Program loan on or after Oct. 1, 2007, and...
- Received a disbursement of a Direct Sub., Unsub., or student PLUS loan on or after Oct. 1, 2011, or Direct Consolidation Loan on application received on or after Oct. 1, 2011
- *Bottom line: If you took out your first student loan on or after Oct. 1, 2011, you're a New Borrower.*
- IBR for New Borrowers has a different definition. If you're a new borrower for IBR – New, you're also a new borrower for PAYE, and PAYE is almost always a better option

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Compare payments, time to pay off, etc. at studentloans.gov/mydirectloan/mobile/repayment/repaymentestimator.Action

Log in to use your actual loan info, or click "Proceed" to add loan info manually or use national averages.

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Example: 4-yr public school, national average

- Single person
- Living in Illinois
- \$32,000 AGI
- \$26,946 in student loans @3.9% interest

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Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness	Repayment Period (months)
Standard	\$272	\$272	\$32,585	\$0	120
Graduated	\$152	\$455	\$33,979	\$0	120
REPAYE	\$115	\$338	\$37,772	\$0	184
PAYE	\$115	\$272	\$37,828	\$0	188
IBR	\$172	\$272	\$34,330	\$0	143
IBR for New Borrowers	\$115	\$272	\$37,828	\$0	188
ICR	\$179	\$216	\$36,154	\$0	184

188 = 15 years 8 months

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Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Public Service Loan Forgiveness	Repayment Period (months)
Standard	\$272	\$272	\$32,585	\$0	120
Graduated	\$152	\$455	\$33,979	\$0	120
REPAYE	\$115	\$226	\$19,972	\$15,973	120
PAYE	\$115	\$226	\$19,972	\$15,973	120
IBR	\$172	\$272	\$28,299	\$5,809	120
IBR for New Borrowers	\$115	\$226	\$19,972	\$15,973	120
ICR	\$179	\$201	\$22,876	\$11,963	120

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Repayment Calculator: Click for loan details

Loans Details

Unsubsidized Federal Stafford Loan \$40,000
4.300%

Loan Type
Unsubsidized Federal Stafford Loan

Balance
40000

Interest Rate
4.3

Repayment Plan Eligibility

Standard, Graduated	Extended (Fixed, Graduated)	Revised Pay As You Earn (REPAYE)	Pay As You Earn (PAYE)	Income-Based Repayment (IBR)	IBR for New Borrowers	Income-Contingent Repayment (ICR)
✓	✓	✗	✗	✓	✗	✗

Would consolidating give you better options?

Loans Details

Direct Unsubsidized Consolidation Loan \$40,000
4.300%

Loan Type
Direct Unsubsidized Consolidation Loan

Balance
40000

Interest Rate
4.3

Repayment Plan Eligibility

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

LOAN FORGIVENESS PROGRAMS

Public Service Teacher Perkins Loan Forgiveness
Income-driven plans: balance after 20 or 25 years

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Public Service Loan Forgiveness (PSLF)

- Forgiveness in as little as 10 years
- Forgiven amount is NOT taxable
- Qualifying:
 - Employer(s)
 - Loan(s)
 - Payments
 - Repayment plan

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Qualifying employer

- Government – any level, entity
- 501(c)3 nonprofit
- Some other nonprofits
- AmeriCorps and Peace Corps volunteer

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Qualifying employer, part 2

- Full time – at least 30 hrs/week
 - *Part-time totaling 30 hrs with 2 qualifying employers will count*
- Employed with a qualifying employer:
 - *At time of each payment*
 - *When apply for forgiveness*
 - *When the loan is forgiven*

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Qualifying loans

- Direct Federal Loan
 - *Not FFEL, not Perkins: consolidate to qualify*
- Not in default

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Qualifying payments

- 120 qualifying payments
- After Oct. 1, 2007
- Payments do not have to be consecutive

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Qualifying payments, part 2

- For full amount
- Made no later than 15 days after due date
- During a time you were required to make a payment (not in in school, grace period, deferment, forbearance)

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Qualifying repayment plan

- Make payment while in a qualifying repayment plan
 - *Any income-driven plan*
 - *Standard – qualifies but will be paid off before forgiveness!*
- Temporary Expanded PSFL Program
 - *Graduated and extended plans*
 - *Apply for PSLF, be denied, then apply for Temp Expanded Program*

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Tips

- If you consolidate, you will lose credit for any prior qualifying payments
- Submit application ASAP & whenever change employers to verify that payments will count
 - *Keep verification docs*
- If pay extra, tell servicer should NOT be used to cover future payments
 - *You want to make and get credit for each month's payment*
- Keep W2s

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Teacher Loan Forgiveness Program

- Up to \$17,500
- Subsidized & unsubsidized, including Stafford
 - *Consolidated? Sub/unsub part is eligible*
- Full time; 5 complete, CONSECUTIVE school years
- Low income school or ed service agency
- Check additional requirements
- Can also get PSLF but not for same years

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Perkins loan forgiveness

- Up to 50-100% of loan, depending on type of job
- After 4-7 years
- In qualifying jobs - extensive list
 - *Teachers, nurses, public defenders, law enforcement, military, Head Start*
- Payments may be suspended

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CURING A DEFAULT

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Rehabilitate

- Ask loan holder to calculate reasonable payment based on income
 - *Can't afford? Request alternate calculation*
- Within 10 months, make 9 payments
 - *Within 20 days of due date*
- Garnishment? Those payments may continue, and don't count toward 9
- Default will be removed from credit history

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Consolidate – two options

- Agree to pay the new loan under an income-driven plan
- Before consolidating, make 3 consecutive, voluntary, on-time payments for full amount based on your finances
- Default will remain on credit history

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SMART ACTIONS

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Smart Actions to Consider

- Signing up for auto payments from your checking account (ACH payment) could save 0.25% off your interest rate
 - *Check with your loan servicer*
- If you're in an income-driven plan, consider contributing to tax-deferred retirement plan
 - *Reduces AGI & payments*
- Claim Student Loan Interest Deduction
 - *Can't if Married Filing Separately*

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For links to resources or to sign up for quarterly notices of upcoming workshops:
KarenChanFinancialEd.com

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