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Federal student loan debt management strategies

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U.S. Student Loan Timeline

- ***October 4, 1957:*** Soviet Union launches Sputnik I
- ***September 2, 1958:*** U.S. enacts NDEA
- ***1966:*** FFEL program begins
- ***1994:*** Direct Loan program begins
- ***January 5, 2010:*** FFEL program ends
- ***September 30, 2017:*** Perkins Loan Program ends



Agenda

- Types of federal student loans
- Non-income driven repayment plans
- Income driven repayment plans
- Forgiveness programs
- Deferment, forbearance, & default



Federal Direct Loan Program for Undergraduate Students

Type of Loan	Description	Eligibility
Subsidized	<p>Students with “financial need”</p> <p>The government pays any interest that accrues while student enrolled at least half-time, during grace period, and during periods of deferment.</p>	<p>Year 1 – up to \$3,500 Year 2 – up to \$4,500 Year 3 + – up to \$5,500</p> <p>Max.: \$23,000</p> <p>Current interest rate: 2.75% Current loan fee: 1.057%</p>
Unsubsidized	<p>Available to all undergraduate students</p> <p>The government does not pay any interest that accrues, at any time.</p>	<p>Year 1 – up to \$5,500 (\$3,500) Year 2 – up to \$6,500 (\$4,500) Year 3 + – up to \$7,500 (\$5,00)</p> <p>Max. \$31,000 (\$23,000)</p>



Federal Direct Loan Program for Parents of Undergraduate Students

Type of Loan	Description	Eligibility
PLUS loan	<p>The government does not pay any interest that accrues at any time.</p> <p>Current interest rate: 5.30% Current loan fee: 4.228%</p> <p>Max.: Cost of attendance – other financial aid received</p>	Available to all parents without an “adverse credit history.”*



Federal Direct Loan Program for Graduate Students

Type of Loan	Description	Eligibility	Current Interest Rate & Loan Fee
Unsubsidized	The government does not pay any interest that accrues at any time.	\$20,500 annual limit Max.: \$138,500 (\$65,500)	Interest rate: 4.30% Loan fee: 1.057%
PLUS	The government does not pay any interest that accrues at any time	Available to all graduate students without an “adverse credit history.”* Max.: Cost of attendance – other financial aid received	Interest rate: 5.30% Loan fee: 4.228%



Federal Direct Loan Program Consolidation Loan

Types of Loans that Can Be Consolidated	Description
<ul style="list-style-type: none"> - Subsidized - Unsubsidized - PLUS - Perkins - FFEL Consolidation Loans <p>NOT private education loans</p> <p>PLUS loans received by parents cannot be consolidated with the student's federal loans</p>	<ul style="list-style-type: none"> - Allows borrower to combine multiple federal education loans into one; not an actual "combination" of existing loans... you actually borrow a new loan to pay off your old ones - Once consolidated, loans cannot be "unconsolidated" - Weighted average interest rate of all loans being consolidated, rounded up to the nearest 1/8 of 1% - If making payments under an "income driven" repayment plan or planning on using the Public Service Loan Forgiveness program and then you consolidate, you will lose credit for any payments made pre-consolidation



Direct Loan Repayment Plans

“The Menu”

Non-Income Driven	Income Driven
1. Standard	5. Income Contingent
2. Graduated	6. Income Based (Old)
3. Extended Fixed	7. Pay As You Earn
4. Extended Graduated	8. Revised Pay As You Earn

<https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action>



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Non-Income Driven Repayment Plans

Example: Single borrower with \$50,000 of student loan debt; \$65,000 AGI

	<u>Monthly</u>	<u>Cumulative</u>	<u>Term</u>
• Standard	\$551	\$66,143	120 months (10 yrs.)
• Graduated	\$315-945	\$70,518	120 months (10 yrs.)
• Ext. - Standard	\$318	\$95,457	300 months (25 yrs.)
• Ext. – Grad.	\$242-489	\$103,576	300 months (25 yrs.)



Income Driven Repayment Plans

Repayment plan	Partial financial hardship?	% of discretionary income	Discretionary income	Forgiveness
ICR	No	20%	AGI - PL	25 years
IBR	Yes	15%	AGI - 150% PL	25 years
PAYE	Yes	10%	AGI - 150% PL	20 years
REPAYE	No	10%	AGI - 150% PL	20 / 25 years
Trump	-	12.5%	AGI - 150% PL	15 / 30 years
Biden	-	5%	AGI - \$25,000	20 years



Repayment Plan	Monthly Payment	Cumulative Payment	Term
Standard	\$518	\$62,183	120 mo.
Income Contingent	\$450-\$507	\$64,411	138 mo.
REPAYE	\$386-\$685	\$64,168	125 mo.
PAYE	\$386-\$518	\$64,592	135 mo.
Graduated	\$292-\$875	\$65,266	120 mo.
Ext. Fixed	\$278	\$83,375	300 mo.
Ext. Graduated	\$188-\$473	\$91,161	300 mo.

Example: Single borrower with \$50,000 of student loan debt; \$65,000 AGI



Federal Direct Loan Program Forgiveness Programs



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- Teacher Loan Forgiveness Program
- Public Service Loan Forgiveness Program
 - Remaining balance of student loans forgiven after making 120 “qualifying monthly payments” while working full-time for a “qualified employer”
- Temporary Expanded Public Service Loan Forgiveness Opportunity



Deferments & Forbearance

Deferment:

Periodic installments of principal and interest need not be paid

- In school
- Parent PLUS
- Graduate fellowship
- Peace Corps
- Active duty / Post active duty
- Cancer treatment
- Rehabilitation training program
- Unemployment
- Economic hardship

Forbearance:

Permitting temporary cessation of payments, allowing an extension of time for payments, or temporarily accepting smaller payments

- Medical/Dental interns or residents
- Teacher Loan Forgiveness service
- AmeriCorps or National Guard duty
- Natural disasters (up to 3 months)
- Payment 20% or more than total monthly income
- Other*



Default

- > 270 days delinquent
- Results in acceleration
- **3 options: pay in full; rehabilitate; consolidate**
 - Consolidation:
 - Record of default not removed from credit history
 - Rehabilitate:
 - Make 9 payments within 20 days of due date; and make all 9 payments within 10 months
 - 15% discretionary income or alternative repayment plan
 - If rehabilitate any Treasury offset or wage garnishment will end and record of default removed from credit history
- Treasury offset; wage garnishment



Developing Your Game Plan

1. Choose the “right” repayment plan
 - a. If not struggling, consider various refinancing strategies
 - b. If struggling move on to step 2
2. Defer
3. Forbear
4. Negotiate (Alternative)
5. Consolidate
6. Default
 - a. Rehabilitate
 - b. Consolidate
 - c. Repay in full



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