

**Student Loan Repayment :
Tools to help borrowers succeed**



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Current Economy

- Students are leaving school with more debt than ever before: student loans, alternative loans, credit cards.
- Some are struggling as soon as the grace period is complete.
- Students' loans are held by multiple entities – this confuses borrowers about repayment responsibilities.
- The first 12 to 24 months of repayment affects the school's Cohort Default Rate.
- Students need to understand their options.

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What are we going to do today?

- "What loans?"
- Repayment options
- Deferments and Forbearances
- Understanding Default

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www.dl.ed.gov



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Repayment Options

- There are options!
- There are costs and benefits to each one.
- Understand which option best fits the student's situation.



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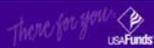
Standard repayment

- Monthly payment amount stays essentially the same throughout repayment.
 - Most commonly selected plan.
- Automatically selected if you don't choose another plan.

Advantages • Typically yields the lowest overall loan cost.
• Allows for aggressive repayment of your loan.

Considerations • Higher payment (compared to other plans) may be more difficult to manage if starting income is low.

Most useful to...borrowers who prefer the stability of having the same monthly payment throughout the repayment term.



Graduated repayment

- Monthly payment adjusted at one or more predefined intervals.
 - Payment must cover accruing interest.
- Number of intervals and frequency of adjustment can vary by lender.

Advantages • Provides a low initial monthly payment.
• Offers predictable payment increases.

Considerations • Lower up-front payment may cause higher interest costs.
• Review payment amounts for later tiers to ensure the payments will be affordable.

Most useful to...borrowers seeking short-term repayment relief.



Graduated Repayment

An Example of a graduated repayment Plan:

Graduated Repayment Plan Based on \$12,500 at 8.25%	
Payment Amount	Number of Months
\$85.84	24
\$125.22	18
\$165.90	18
\$206.51	60



Extended repayment

- Allows up to 25-year repayment term.
 - Can be standard or graduated.
 - Eligibility for FFEL or DL:
 - Total loans more than \$30,000 AND all loans disbursed to new borrowers on or after Oct. 7, 1998.

Advantages • Provides a lower monthly payment for the entire repayment term.

Considerations • Longer repayment term typically results in higher overall interest costs

Most useful to...borrowers who need long-term repayment relief.



Income-sensitive and –contingent repayment

- Income-sensitive repayment (FFELP only).
 - Based on your total monthly gross income.
 - Must cover at least monthly accruing interest.
- Income-contingent repayment (DL only).
 - Based on family size, household AGI and total loan amount.
 - Balance forgiven after 25 years of payments.
 - Forgiven amount taxable under current law.

Advantages • Provides a flexible monthly payment associated with your income.

Considerations • Longer repayment term typically results in higher overall interest costs.

Most useful to...borrowers with income too low to afford payments under other repayment plans.



Consolidation

- New loan pays off existing loans and carries new terms.
- Interest rate is fixed and is a weighted average rounded up to the nearest 1/8 percent.
 - 10- to 30-year term.

Advantages • Lowers monthly payment by extending repayment term.
• Combines payments to multiple lenders into one payment.
• Replaces multiple interest rates with a single interest rate.

Considerations • Likely increase in total interest costs due to the longer repayment term.
• May lose benefits attached to loan paid by consolidation.

Most useful to...borrowers with multiple lenders seeking a single payment.



Repayment comparison

Total Loan Amount	\$20,000 Loan *		
	Long-Term Monthly Payment	Total Interest	Years in Repayment
Standard	\$230	\$7,619	10
Income-sensitive (one year interest-only)	\$113	\$8,979	11
Graduated (four years interest-only)	\$113	\$9,853	10
Extended (Standard)	Not available on loan balances less than \$30,000		
Consolidation (Standard)	\$154	\$16,855	20
Consolidation (Income-sensitive – one year interest-only)	\$115	\$18,230	21

* Examples assume Federal Stafford loans with the total loan amount due on the day repayment begins, 6.8% fixed interest rate on non-consolidated loans and 8.875% interest rate on consolidated loans, no borrower benefits, no pre-payments and no delinquent payments. All payment calculations are estimates only. Your monthly payment schedule and total payment estimates will vary.



Income Based Repayment (IBR)

- Standard payment amounts are capped based on income and family size.
 - Borrower must reapply annually with new AGI and family size information.
- Remaining debt may be forgiven after 25 years.
 - Borrower must meet certain criteria.
- Grad PLUS loans are eligible.
 - Parent PLUS, private and consolidation loans that include a Parent PLUS loan are not eligible for this new program.
- Stafford, Grad PLUS and consolidation loans (that don't include a Parent PLUS loan) and Perkins loans if they are in a consolidation loan are eligible.



IBR

- Income-based repayment.
 - How is eligibility calculated?
 - If a student's standard loan payments exceed 15% of whatever he/she makes above 150% of Poverty Guidelines, IBR will lower the payment amount.
 - What are the amounts that represent 150% of 2011 Poverty Guidelines for a family of one?

States	Amount
48 states and D.C.	\$16,335
Alaska	\$20,400
Hawaii	\$18,810



An IBR example

- \$25,000 in student loan debt at 6.8%, with a current monthly standard repayment of \$288 per month, earning \$30,000 AGI and only one in family.
 - Could this borrower qualify for IBR?
- Let's do the math:
 - $\$30,000 - \$16,335 = \$13,665$
(What they make above 150% Poverty Guidelines)
 - $\$13,665 \times 0.15 = \$2,049.75$
(15% of what they make above Poverty Guidelines annually)
 - $\$2,049.75 \div 12 = \170.81
(Monthly estimated payment in IBR)



IBR

- This chart shows examples of IBR payment caps as a percentage of the borrower's family income, based on various incomes and family sizes.
(from ibrinfo.org)

Number of persons in household	No payment required		2008 family income	
	\$20,000	\$40,000	\$60,000	\$100,000
6	No payment required	No payment required	4.4%	8.6%
4	No payment required	3.1%	7.1%	10.0%
2	No payment required	7.1%	9.8%	11.9%
1	3.3%	9.2%	11.1%	12.7%



Calculator available at: www.ibrinfo.org

IBR Calculator ...

This calculator can help you determine if you – or you and your spouse if you are married – might qualify for Income-Based Repayment (IBR). We recommend that you use the most recent version of your web browser, such as Internet Explorer 7.

Are you married?
 No Yes I'm not sure

What are your federal adjusted gross incomes (AGI) for the last year and the year before?
 Enter the AGI for the last year and the year before. If you are married, enter the AGI for the household. If you are a dependent, enter the AGI of the parent you are dependent on. If you are a student, enter the AGI of the parent you are dependent on. If you are a graduate student, enter the AGI of the parent you are dependent on. If you are a dependent, enter the AGI of the parent you are dependent on. If you are a student, enter the AGI of the parent you are dependent on. If you are a graduate student, enter the AGI of the parent you are dependent on.

What is your household size?
 Enter the number of people in your household, including your spouse's income.

What is the federal rate on your federal student loans?
 Enter the federal rate on your federal student loans. If you are married, enter the rate for the household. If you are a dependent, enter the rate of the parent you are dependent on. If you are a student, enter the rate of the parent you are dependent on. If you are a graduate student, enter the rate of the parent you are dependent on.

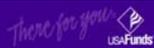
Are you/your spouse/your dependent on a federal loan?
 No Yes I'm not sure

Are you/your spouse/your dependent on a federal loan?
 Enter the number of federal loans you or your spouse or your dependent on are dependent on. If you are a student, enter the number of federal loans you or your spouse or your dependent on are dependent on. If you are a graduate student, enter the number of federal loans you or your spouse or your dependent on are dependent on.

Calculate

Public Service Forgiveness Program

- This new program also is covered on the **ibrinfo.org** site. How does it work?
 - This program is not currently funded.
 - Forgives remaining debt after ten years of eligible employment and qualifying loan payments.
 - During those ten years, the income-based repayment plan keeps payments affordable.
 - What is eligible employment?
 - Any nonprofit, tax-exempt 501(c)(3) organization.
 - Federal, state government, local or tribal government (includes the military and public schools and colleges).
 - A full time AmeriCorps or Peace Corps position.



Public Service Forgiveness Program

- Eligible loans: Federal Stafford, Grad PLUS or consolidation loans in the Direct Loan program.
 - Borrowers with FFELP loans must switch to the Direct Loan program to receive this benefit.
- Only payments made after Oct. 1, 2007, count toward the 10 years (120 months, not necessarily consecutive) required for Public Service Loan Forgiveness.
 - Qualifying payments must be made through the Direct Loan program and include income-contingent repayment, standard (10-year) repayment or income-based repayment (July 2009).



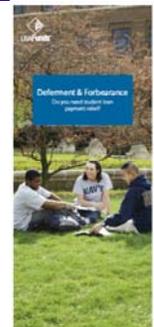
Public Service Forgiveness Program

- Interested students should:
 - Register for update e-mail service at **ibrinfo.org**.
 - Consider consolidation or re-consolidation with Direct Lending if they are FFELP borrowers and know they will work in public service as defined by this program.
 - Keep accurate repayment and employment records and wait for ED to publish more information.
 - There currently is no formal registration process.
 - The program has not been funded.



Loan Deferments

- A deferment is a postponement of payments for a specified period of time during repayment after the grace period has expired.
- Generally borrower-specific rather than loan-specific.
- Can help many borrowers through temporary financial hardship.



Loan Deferments ... continued

- Are entitlements; the borrower must be granted one if they qualify for the deferment and request it.
- Are not automatically granted; the borrower must request a deferment.
 - Usually done by submitting the deferment form.
- Our government pays accruing interest during deferments on subsidized Stafford loans.
 - Borrower is responsible for the interest on Unsub/PLUS



Loan Deferment ... continued

- The borrower's eligibility for deferments depends on the oldest loan they have with an open balance. There are:
 - Deferments available to borrowers with loans first disbursed prior to **July 1, 1987**.
 - Deferments available to borrowers with loans first disbursed **July 1, 1987, to June 30, 1993**.
 - Deferments available to borrowers with loans first disbursed **July 1, 1993**,
 - Deferments available to borrowers with loans first disbursed **2001 to present**.



A resource for students for forms and information

HERE'S THE STUDENT AID FEDERAL 5

HOME | YOUR ACCOUNT | QUESTIONS CENTER | FORMS

Deferment Forms

A deferment is a period in which repayment of principal and interest is postponed temporarily. During the deferment of a subsidized loan (Direct Subsidized and Direct Unsubsidized Consolidation Loans), the government pays the interest that accrues. For unsubsidized loans (Direct Unsubsidized, Direct PLUS, Direct Unsubsidized Consolidation, and Direct PLUS Consolidation Loans), you are responsible for the interest that accrues during the deferment period. If you have unsubsidized loans, any unpaid interest capitalizes (is added to the principal balance) when you enter repayment at the end of the deferment. Our online [Interest Capitalization Calculator](#) can provide you with an estimate of the amount of interest that may capitalize at the end of your deferment period. There are several [interest rates](#). If you are not eligible for a deferment you may still be eligible for a [loan forbearance](#).

From this Deferment Request page, you can:

- Click a specific deferment name for eligibility information.
- Download a blank request form.

Name	Description	Download a blank request form
Active Programs Deferment	You must be a full-time post-college or Active Programs for at least one year and must meet other conditions.	Interactive Form-Download Download Blank Form
Armed Forces Deferment	You must be on active duty in the Armed Forces in the United States and you must have agreed to serve for at least one year.	Interactive Form-Download Download Blank Form
Economic Hardship Deferment	You must receive federal or state public assistance or earn less than a federal minimum wage or receive a federally defined discretionary income rate to receive this deferment.	Interactive Form-Download Download Blank Form
Graduate Fellowship Program Deferment	You must be engaged in a full-time course of study in a Graduate Fellowship Program.	Interactive Form-Download Download Blank Form

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The Most Common Deferments

- In School (SCH)
- Unemployment (UNEM)
- Military (MIL)
- Economic Hardship (HRD)
- Default
 - Avoid at all cost
 - Consequences

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(SCH) In-School Deferment

- All borrowers qualify for an in-school deferment whenever they are attending an approved institution at least half-time rate. (No time limit!)
- Who certifies? The school that the student is attending.

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(UNEM) Unemployment Deferment

- Defined as the period the borrower is conscientiously seeking full-time employment in the United States.
- Maximum of 36 months for new borrowers as of July 1, 1993. If their first loans were made prior to that date, they are eligible for 24 months.
- These times need not be contiguous.
- Borrowers must reapply every six months, and may be asked to provide additional documentation.
- Who certifies? The student!

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(MIL) Military Deferment

- Published in June 2007 – Must be made available to borrowers by October 1, 2007
- Applies to loans disbursed after July 1, 2001.
- Qualifications:
 - Active duty during a war or other military operation or national emergency.
 - Qualifying National Guard duty during a war or other military operation or national emergency.
- Term: Up to three years of deferment.
- Who certifies? Commanding or Personnel Officer

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(HRD) Economic Hardship Deferment

- Borrowers qualify if they meet one of these conditions:
 - They already have been granted a HRD in FFELP or DL,
 - They receive federal or state public assistance such as TANF, SSI, food stamps, or are on state general public assistance.
 - They are a volunteer in the Peace Corps,
 - They work full-time and earn less than the greater of
 - Minimum Wage (\$1256.00 is the current federal minimum monthly wage [7.25/hr]) OR
 - 150% of the Poverty Guidelines for their state. (example: for one person it is \$1361.25 for contiguous states, \$1700 for Alaska and \$1567.50 for Hawaii).
 - They work less than full-time, but earn less than two times the amounts in #4, and when you subtract their student loan payments, their monthly wage is still less than the amounts in #4.
 - They work full-time, their monthly student loan payments are greater than 20% of their income, and the remainder is less than 220% of the amounts in #4.

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(HRD) Economic Hardship Deferment ... continued

- Maximum deferment is 36 months.
- Typically, they are granted for 12 months, because all who qualify, except for under condition #3, must re-apply every 12 months.
- The deferment date should be the date the condition started, not today's date or the next payment due date.
- Lenders can grant forbearance up to the deferment start date if the account is already delinquent.
- Borrowers should take care to submit the appropriate documentation that shows that they qualify for this deferment.



Forbearances

- An agreement between the borrower and the lender to alter or temporarily suspend the previously agreed upon monthly payments to prevent the borrower from lapsing into further delinquency and hopefully to avert default.
 - Temporarily cease payment of principal and interest.
 - Temporarily cease payment of principal.
 - Arrange to make lower payments.



Forbearances ... continued

- At no time during a forbearance will interest benefits be paid by the government regardless of the loan type.
 - Borrower is responsible for all accruing interest.
- Generally used when a borrower is willing but temporarily unable to make regular payments due to financial hardship.
- Often used in combination with deferments – to cover time while paperwork is submitted, or for past periods of delinquency prior to deferment begin date.



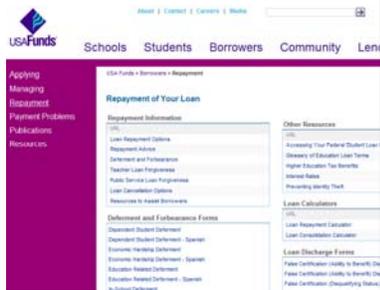
Forbearances...continued

- They are generally discretionary – the lender's servicer determines months granted.
- For example, our servicer's philosophy is to use "only what the borrower really needs."
 - Always the 'last resort' option in the conversation.
 - Concern is for the long range impact of interest payments on loan balance.
- Verbal forbearances can be done regardless of type of loan (PLUS included).
 - However, any loans that is over 270 days delinquent cannot qualify for verbal forbearance; must submit paper form.



Loan Forgiveness and Cancellation

You can find all of the up-to-date forms for discharge applications in the borrowers section of www.usafunds.org



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