

Repaying Your Student Loans



2007 Exit Presentation

NYU Stern School of Business

Repayment Realities and Success Strategies

Planning for Repayment
of Your Student Loans

Federal Stafford Loan (FFELP)

Repayment Terms

- **Repayment period begins following GRACE period of 6 months**
- **Variety of repayment options available**
 - **Standard repayment period = 10 years**
 - **Period may be longer with different repayment options**
- **Minimum payment**
 - **\$50**
 - **Minimum payment may be larger due to amount owed and maximum repayment period allowed**
- **No prepayment penalty**

What you need to know about . . .

- **Rights & Responsibilities**
- **Delinquency**
- **Default**

Your Rights

- **Deferment, forbearance, discharge**
- **Alternative payment plans**
- **Prepayment without penalty**

Your Rights

Deferment

Temporary postponement of monthly loan payments

- **Eligibility**
 - **Defined by law/promissory note**
 - **Earliest outstanding FFELP loan**
- **Interest subsidy for subsidized Stafford Loans**
- **Borrower must request from holder/servicer**
- **Borrower must provide documentation**
- **Loan must be in good standing**

Your Rights

Current Deferment Types

New FFELP Borrowers as of 7/1/93 are eligible for:

- **In-school** (*at least half-time*)
- **Education-related**
 - **Graduate fellowship program** (*full-time*)
 - **Rehabilitation training program** (*full-time*)
- **Unemployment**
- **Economic hardship**
- **Military** (*for loans borrowed on or after 7/1/2001*)

Your Rights

Forbearance

Temporary postponement or reduction of monthly payments, or extension of time for making payments

- **Borrower responsible for interest**
- **Discretionary forbearances**
- **Borrower must request from loan holder/servicer**
- **Borrower must provide documentation**
- ***Mandatory* forbearance in certain cases including during medical/dental internship and residency**

Your Rights

Loan Discharge (FFELP Loans)

- **Loan discharge available due to:**
 - **Death**
 - **Total and permanent disability**
- **Documentation must be provided to loan holder/servicer**
- **Partial discharge or loan forgiveness may be available for certain types of employment (e.g., teaching in shortage area)**

Repayment Options (FFELP)

Federal Stafford/PLUS Loans

- **Standard (Fixed) Repayment**
- **Graduated Repayment**
- **Income-Sensitive Repayment (FFELP)**
- **Extended Repayment (*if eligible*)**

You're allowed to change your payment plan

Estimating Monthly Payments

- **Amount of monthly payment depends on:**
 - Total amount owed
 - Interest rate
 - Repayment option chosen
 - Length of repayment period
- **Repayment calculators are available:**
 - Internet calculators, e.g., AccessGroup.Org
 - “Rule of 115”
 - “Rule of 125”

Your Responsibilities

You must:

- **Repay all loans**
- **Notify loan holder/servicer of changes**
- **Call loan holder/servicer if unable to make payment**

Avoid default!

Default occurs when:

- **You do not repay a loan as agreed**
- **You fail to meet all other borrower responsibilities as stated in the promissory note**

Consequences of Default

You will NOT achieve your financial goals because:

- **U.S. Department of Education can declare that the entire balance and accrued interest on your loan is *due* immediately**
- **Wages can be garnished**
- **Eligibility for deferments will be lost**
- **Eligibility for federal student assistance will be lost**
- **Account can be turned over to a collection agency**

MORE Consequences of Default

- **IRS can withhold federal/state income tax refunds**
- **Total debt can be increased by late fees, additional interest, court costs, collection fees, attorney's fees, and other costs**
- **Federal government can take legal action against you**
- **Credit rating can be damaged for at least seven years**
- **Eligibility to obtain/maintain professional license(s) can be lost**

Managing Loans Responsibly

- **Meet all your borrower responsibilities**
- **Defer prior student loans** *(as needed while in school)*
- **Understand loan terms and conditions**
- **Do not ignore mail from loan holder/servicer(s)**
- **Promptly report changes to loan holder/servicer(s)**
- **Request deferments/forbearance** *(as needed)*
- **Keep accurate, well-organized records**

Managing Your Loans

Payment Tips

- **Make payments on time**
 - Enhances your chance to qualify for on-time benefits
 - Helps you maintain or improve credit record
- **When paying more than is due:**
 - Verify where payment should be mailed
 - Apply additional payment to principal, if permitted
 - Include written explanation
 - Confirm payment was applied as intended with loan holder/servicer or by checking next billing statement

Federal Loan Consolidation



Federal Loan Consolidation is . . .

- **Paying off one or more eligible federal education loans by borrowing a new federal education loan**
- **All federal student loans except the Primary Care Loan (PCL) are eligible for federal loan consolidation**



Costs of Consolidation

Fees and Interest Rates

- **No fees**
- **Interest rate:**
 - **FIXED rate**
 - **Weighted average of interest rates on loans being consolidated**
 - **Rounded up to nearest 1/8th percent**
 - **Capped @ 8.25%**
- **Lender may offer payment incentives**
 - **Access Group offers:**
 - *Access OnTime* = 1% interest rate reduction after first 36 consecutive payments are made on time
 - *Access Automatic* = 0.25% interest rate reduction for EFT



General Repayment Terms

- **No grace period**
- **No prepayment penalty**
- **Up to 30 year repayment period**
- **4 repayment options**
- **Deferments and forbearance available**
- **Discharge provisions**



Length of Repayment Period

Total Student Loan Balance in Grace or Repayment	Maximum Period*
Less than \$7,500	10 years
\$7,500 - \$9,999	12 years
\$10,000 - \$19,999	15 years
\$20,000 - \$39,999**	20 years
\$40,000 - \$59,999	25 years
\$60,000 or more	30 years

***Amount of other student loans used in calculating the total sum cannot exceed the loan amount you are consolidating [§682.209(h)]**

****Repayment period may be extended for qualified borrowers using the Extended Repayment Plan**

You are allowed to choose a SHORTER period



Reasons to Consolidate

- **To reduce monthly loan payment**
 - **Increases monthly cash flow**
- **To have single statement billing**
 - **Increases convenience**
- **To take advantage of fixed interest rate structure**
 - **Can reduce long-term cost**



Impact of Increasing Repayment Period

\$40,000 Federal Consolidation Loan

Length of Repayment Period	Monthly Payment	Total Paid
10 years	\$ 462	\$ 55,423
15 years	\$ 357	\$ 64,214
20 years	\$ 307	\$ 73,710
25 years	\$ 280	\$ 83,859

Assumptions:

- \$40,000 in Federal Stafford Loan debt consolidated
- 6.875% fixed rate (based on 6.8% fixed rate for Stafford)
- 25-year repayment period is maximum allowed for \$40,000 debt
- Standard repayment plan
- No payment incentives



Consolidation May Not Be Right for You

Federal loan consolidation may not be right for you if:

- **You are trying to get the lowest possible monthly loan payment**

and/or

- **You want to pay the lowest total cost for your loans**



Questions to Consider in 2007

- **Why may federal loan consolidation not be right for you?**
- **How may you be able to save money if you do not consolidate your fixed rate federal student loans?**
- **What do you need to know to make an informed decision about federal loan consolidation in 2007?**
- **And a BONUS question!**
 - **Is private loan consolidation a good idea?**



Consolidation May Not Be Right

Three Reasons

- **If ALL of the following are true:**
 - You only have eligible federal student loans with **FIXED** interest rates
 - You qualify for **Extended Repayment**
 - You qualify for **on-time payment incentives on Federal Stafford/PLUS Loans**
- **Then, you could have both a lower monthly payment and pay less over the life of repayment by NOT consolidating**



Consolidation May Not Be Right For You – *Reason 1*

If you have only fixed rate loans

- **Federal Stafford/Direct Loans first disbursed on or after July 1, 2006, have fixed interest rates**
- **Thus, the fixed interest rate structure of the Federal Consolidation Loan (FCL) provides no advantage if you have these new fixed rate loans**
- **In fact, if you consolidate a loan that already has a fixed rate, the new fixed interest rate for the FCL likely will be higher due to the “rounding up to the nearest 1/8th percent” feature of the FCL rate**
 - **Federal Stafford/Direct Loans first disbursed on/after July 1, 2006 have a fixed interest rate of 6.8%. If consolidated, the fixed rate would increase to 6.875% on that debt.**



Consolidation May Not Be Right For You - *Reason 2*

If you qualify for Extended Repayment

- **Extended Repayment provides a 25-year repayment period using either standard or graduated repayment**
- **To qualify, you must have more than \$30,000 in eligible federal student loan debt, AND first borrowed an eligible loan on or after October 7, 1998**
- **Thus, it allows you to reduce your monthly loan payment *without* having to consolidate**



Consolidation May Not Be Right For You – *Reason 3*

If you qualify for on-time incentives on Federal Stafford and/or PLUS loans

- **For example, Access Group currently offers on-time payment incentives on Federal Stafford and Federal PLUS Loans that are more beneficial financially than those offered on consolidation loans**
 - **0.8% interest rate reduction after the first payment is made on time on a Federal Stafford Loan first disbursed on/after July 1, 2006**
 - **At least a 1.0% interest rate reduction after the first payment is made on time on a Federal PLUS Loan first disbursed on/after July 1, 2006**
- **You will lose these benefits if you consolidate your loans that have on-time payment incentives**



Which payment option provides the lowest cost?

Extended Repayment or
Federal Loan Consolidation



Assumptions

- **You are eligible for the Extended Repayment option**
- **You have fixed interest rate Federal Stafford/Direct and/or Federal PLUS Loans**
- **You expect to qualify for on-time payment benefits on your Stafford/PLUS loans**
- **You qualify for 30-year repayment period on a Federal Consolidation Loan**



\$20,000 Federal Stafford Loan (FSL)

Federal Stafford Loan (FSL)	Extended Repayment	Consolidation of Stafford (FSL)	
Loan Principal	\$20,000	\$20,000	
Interest Rate	6.80%	6.875%	
Length of Repayment	25 years	25 years	30 years
Monthly Payment	\$138.81	\$139.77	\$131.39
Total Paid	\$41,644.33	\$41,929.51	\$47,298.87



What if you get 0.8% interest rate reduction on Stafford?

Federal Stafford Loan (FSL)	Extended Repayment	Consolidation of Stafford (FSL)	
Loan Principal	\$20,000	\$20,000	
Interest Rate	6.00%*	6.875%	
Length of Repayment	25 years	25 years	30 years
Monthly Payment	\$128.86	\$139.77	\$131.39
Total Paid	\$38,658.08	\$41,929.51	\$47,298.87

*Assumes interest rate is reduced by 0.8% after you make your first scheduled monthly loan payment on time and continues as long as payments are received on time



Borrowers with Both Fixed and Variable Rate Loans

Does consolidation provide the lowest monthly payment and/or lowest total cost?



What should you do?

- **May still want to consolidate the federal student loans with variable interest rates**
- **Can consolidate only the variable rate loans as a separate Federal Consolidation Loan**
- **Can retain fixed rate loans as separate loans**
- **May not want to include a prior consolidation loan as part of a new consolidation so that any prepayments can be targeted at the highest cost debt**



What should borrower do?

- **Including an existing Federal Consolidation Loan (FCL) as part of a new FCL could be the right choice if:**
 - Existing FCL is with a lender that is not meeting the needs of the borrower, and/or
 - Existing FCL did not qualify for the maximum 30-year repayment period, but including it as part of the new FCL could allow the borrower to repay the debt over 30 years with a lower monthly payment



What is best?

Borrower has the following loan balances:

- **\$20,000 existing Federal Consolidation Loan (FCL) @ 4.75% over 20 years**
- **\$20,000 new Federal Stafford Loan debt (FSL) @ 6.80% over 25 years**
- **\$20,000 new Federal PLUS Loan debt (PLUS) @ 8.50% over 25 years**
- **Eligible for 30 year repayment period on new combined FCL of \$60,000**

Loan	Loan Amounts	Interest Rate	Years	Monthly Payment	Total Payout
FCL	\$20,000	4.75%	20	\$129.24	\$31,018.73
FSL	\$20,000	6.80%	25	\$138.81	\$41,644.33
PLUS	\$20,000	8.50%	25	\$161.05	\$48,313.63
Totals	\$60,000	n/a	n/a	\$429.10	\$120,976.69
New FCL	\$60,000	6.75%	30	\$389.16	\$140,097.19



2006–2007 Variable Interest Rates

Federal Stafford/Direct Loans

With 2006–2007 91-day T-bill = 4.84%:

- **In-school/grace/deferment variable interest rate =**

$$4.84\% + 1.7\% = 6.54\%$$

- **Consolidation (FCL) fixed rate = 6.625%**

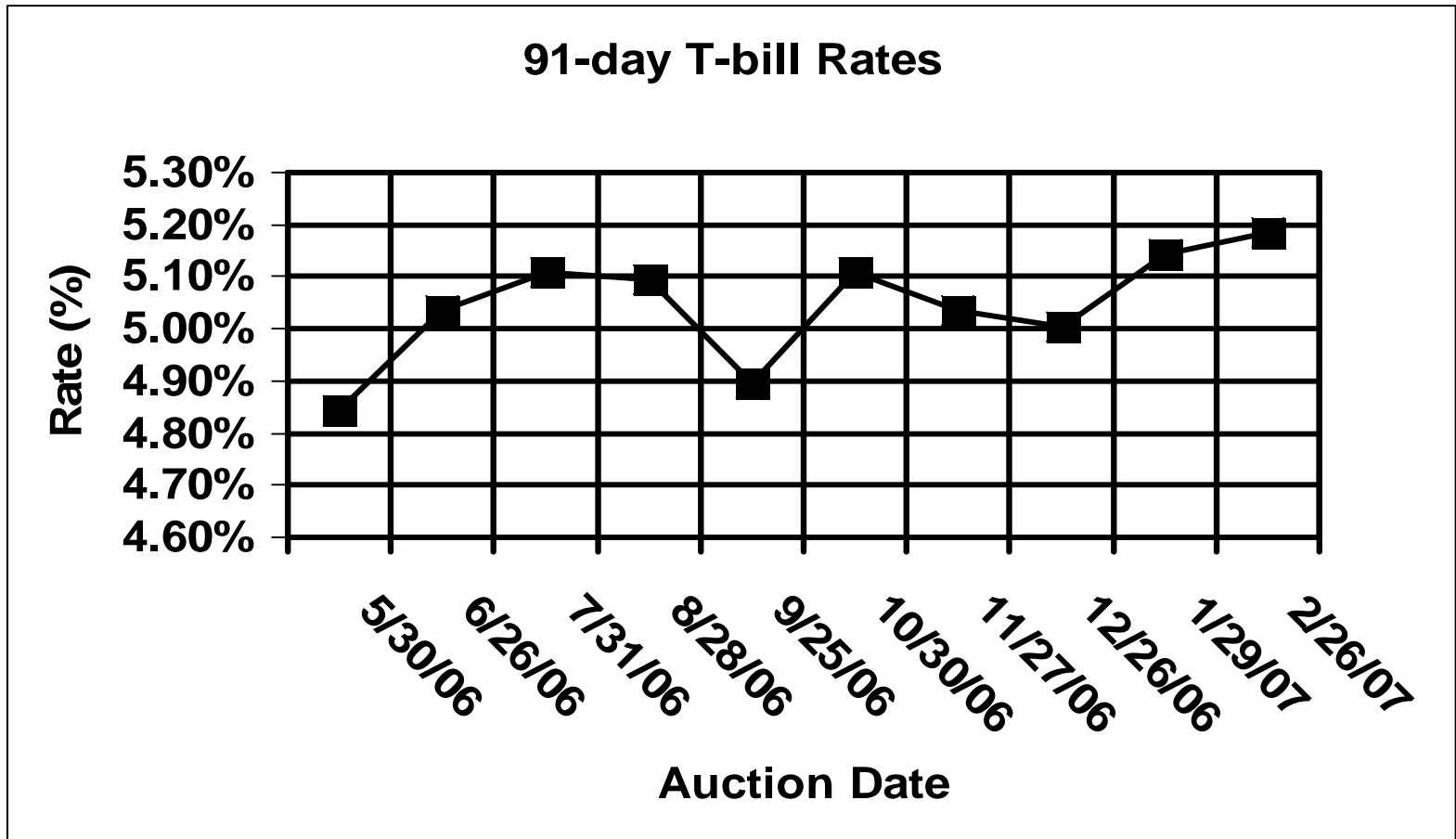
- **In-repayment/forbearance variable interest rate =**

$$4.84\% + 2.3\% = 7.14\%$$

- **Consolidation (FCL) fixed rate = 7.25%**



Recent 91-day T-bill Rate Trends



Source: “Treasury Security Auction Results.” U.S. Department of the Treasury, Bureau of the Public Debt, Washington, DC.



What would be the 2007–2008 interest rates if set as of 2/26/07?

Assuming 2007–2008 91-day T-bill = 5.19%:

- In-school/grace/deferment variable interest rate =

$$5.19\% + 1.7\% = 6.89\%$$

- Consolidation (FCL) fixed rate = 7.00%

- In-repayment/forbearance variable interest rate =

$$5.19\% + 2.3\% = 7.49\%$$

- Consolidation (FCL) fixed rate = 7.50%

0.375% increase over 2006-2007 fixed FCL rates for loans in-school/grace/deferment

0.250% increase over 2006-2007 fixed FCL rates for loans in-repayment/forbearance



When to Consolidate

Factors Related to All Federal Loans

- **To be eligible, loans must be:**
 - **Fully disbursed**
 - **In grace or in repayment**
- **NO deadline for consolidating once loans are eligible for consolidation**
- **Can request funding of FCL be delayed until near the end of your Federal Stafford Loan grace period**
 - **Must provide *Stafford Grace Period End Date* on your FCL application**



When to Consolidate

Factors Related to Variable Rate Federal Loans

- **Should be aware of trends in the 91-day Treasury Bill used to set variable rate**
 - **If increasing, consolidate before rate changes**
 - **If decreasing, consolidate after rate changes**
- **Consolidate variable rate loans while in grace or deferment**
 - **Allows you to take advantage of lower spread**



Factors To Consider Regarding Private Loan Consolidation



Consolidating Private Loans

Factors to Consider

- **Interest rate may be higher**
 - Private consolidation loan may have higher interest rate than currently is being paid on existing private loans
- **Increasing repayment period increases total costs**
 - Private consolidation loan may have longer repayment period but this will increase the total interest paid –existing private loans typically have longer repayment periods than standard 10-year period on Federal Stafford/PLUS Loans (e.g., Access Group private student loans have 20-year repayment period)
- **Grace period may be lost**
 - Any grace period remaining on existing private loans would be lost if consolidated



Consolidating Private Loans

MORE Factors to Consider

- **Additional fees may be assessed**
 - You may have to pay fees to consolidate existing private student loans
 - These fees will add to total cost of debt
- **Borrower benefits will be lost**
 - Any on-time payment and auto-debit benefits on the existing private student loans would be lost when the loans are consolidated
 - Benefits on private student loans likely are more generous financially than those offered on private consolidation loans



In summary . . .



Think Twice Before You Consolidate in 2007

Remember:

- Weigh benefits and costs carefully before consolidating *fixed interest rate* loans,
- If consolidating *variable interest rate* Federal Stafford/Direct Loans, try to do so during grace or deferment period
 - Variable interest rate spread on these loans is 0.6% lower during grace and deferment
- There is NO HURRY to consolidate if all the loans they want to consolidate already have *fixed interest rates*



For More Information on Consolidation

- **For the latest news about the Federal Consolidation Loan program, go to Access Group's special Federal Consolidation Web site:**
 - *FederalConsolidation.Org*
- **For an educational tutorial that covers the basic terms of a Federal Consolidation Loan, go to Access Group's WiseBorrower[®] Curriculum at:**
 - *AccessGroup.Org/WiseBorrower*

We're here to help you!

Access Group

800-282-1550

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Congratulations and
Good Luck!