

Repaying Your Student Loans – Best Strategies

Presented by Jane Lemke



Repaying your Student Loans Best Strategies

AGENDA

- Understand and review your loans
 - Loan types:
 - Federal
 - Private
 - Loan Cost:
 - Interest Rate
 - Capitalization
 - Incentives and discounts
 - Loan Servicer
 - Identifying your Servicer(s)
 - Repayment
 - Understanding your Grace Period
 - Determining your Repayment Plan
 - Employer Loan Repayment Benefits
 - What if I can't make my payment
 - Deferment and Forbearance
 - Can I consolidate or refinance my debt
 - Options!

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Understanding your Federal Loans

- Know what types of loans you have, how much you owe and who you will pay.
 - Exit Counseling packet
 - Financial Aid Office
- Locate your Federal Student Loan history:
 - Using your FSAID access the National Student Loan Data System (NSLDS) at www.nsls.ed.gov or contact the Financial Aid Office:
- NSDLS Detail will show: Type of Loan, Date borrowed, Amount borrowed, Interest Rate, Repayment Plan options and the Servicer that you will pay.
 - Perkins Loans
 - Direct Subsidized Loans
 - Direct Unsubsidized Loans
 - Direct PLUS Loans
 - Direct Consolidation Loans
 - FFELP Loans (no longer originated as of 7/2/2010 and includes Stafford, PLUS and Consolidation Loans)

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Your Federal Student Loans – Locating your Loan details?

- **Federal Student Loans**
 - **National Student Loan Data System**
www.nslsids.ed.gov



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Direct Subsidized vs. Direct Unsubsidized Loans

Direct Subsidized Loans

Have no interest cost while student is in school, in grace (if applicable), or in a period of authorized deferment

EXAMPLES

- Direct Subsidized Loans*
- Perkins Loans
- Consolidation Loans- portion of underlying eligible subsidized loans
- Some institutional loans (see promissory note or aid office)
- Health Professions Loans

Direct Unsubsidized Loans

Borrower is responsible for interest that accrues from the time of disbursement

EXAMPLES

- Direct Unsubsidized Loans
- PLUS Loan for Graduate Students
- Consolidation Loans- unsubsidized portion, which includes the unsubsidized Stafford loans plus any Perkins
- Private Loans

*Effective July 1, 2012, Subsidized Stafford Loans are no longer available for graduate students.

Note: Consolidated Appropriations Act (Public Law 112-74) temporarily eliminated the interest subsidy during the 6-month grace period on subsidized Stafford loans made from July 1, 2012 through June 30, 2014. The subsidy resumed for loans made on or after July 1, 2014.

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Understanding your Private/Alternative Loans

- Know what types of Private Education loans you have, how much you owe and who you will pay.
- Locate your Private/Alternative Loan history:
 - Contact your Financial Aid Office or
 - Access your Credit report at www.annualcreditreport.com
- Loan Detail will show: Type of Loan, Date borrowed, and the Lender.
 - Use this information to contact the Lender's loan servicer

Contact your Private Loan Servicer to:

- Understand your interest rate, grace period and repayment options.
- Understand cost savings/discount programs:
 - Examples may include: Auto-debit, On-time payments, Proof of Graduation, Good Grades and more.
- Identify any program requirements for cost savings/discounts: Examples may include: Signing up for automatic payments, Making your first payment on-time, signing up for electronic statements, submitting proof of graduation or grades and more.
- What if you can't make a payment: Contact your loan servicer to learn about available Forbearance and Deferment options.

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Your Private Student Loans – Locating your loan details

- Financial Aid Office
 - Private Student Loan
- www.annualcreditreport.com



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Determining the cost of your Student Loan

- Interest Rate
 - What the lender charges for the use of money
 - The higher the interest rate, the more the loan will cost overall
- Capitalization
 - Adding unpaid accrued interest to the principal balance of a loan
- Borrower Benefits: Repayment Incentives and Discounts
 - Interest rate reductions
 - Credits to loan balance
 - Some benefits and repayment incentives impose eligibility requirements such as signing up for automatic debit or making a certain number of on-time payments
 - Cosigner Release Option

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Federal Direct Loan Rates & Fees

	Loans First Disbursed		
	10/1/15 – 6/30/16	7/1/16 – 9/30/17	10/1/17 - 6/30/18
Undergraduate Stafford (subsidized & unsubsidized)			
Interest Rate:	4.29%	3.79%	3.45%
Fee:	1.073%	1.069%	1.066%
Graduate Stafford (unsubsidized)			
Interest Rate:	5.84%	5.31%	6%
Fee:	1.073%	1.073%	1.066%
Parent and Graduate PLUS			
Interest Rate:	6.84%	6.31%	7%
Fee:	4.292%	4.276%	4.264%

Source: This information was gathered 3/2016 from <https://studentaid.ed.gov/sa/>

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Who is my loan servicer?

- Federal and/or private loans may not all be with one servicer. You may have multiple servicers!
- Names of Loan Servicers may be located on
 - NSLDS, Your Credit Report or Contacting the Financial Aid Office.
 - They may include but are not limited to:
 - Great Lakes
 - Nelnet
 - FedLoan Servicing (PHEAA)
 - Navient
 - Private Loan Lender
 - Others
- Loan Servicer (s):
 - Borrowers must notify the servicer of changes to their contact information or changes in their ability to make a required loan payment.
 - Borrowers **MUST BE NOTIFIED** if there is a change in the Service Provider – so read all communications from your Loan Servicer.
 - The terms of a federal loan, as specified in the promissory note, will not change if sold or transferred to another servicer

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When is my first payment due? Understanding Grace Periods

Grace Period - Period of time after a borrower graduates, leaves school or fails to meet enrollment requirements

- Payments may not be required during this period
- No application required
- Loan specific, varies according to loan – once used completely, it's gone
 - Direct Subsidized and Unsubsidized loans have a six-month grace period
 - Private and Institutional loans: check your promissory note
- Unsubsidized federal loans continue to accrue interest during the grace period
- Taking advantage of a grace period does not adversely impact credit
- Ask your Private Loan Servicer about your Private Loan grace period
- Benefits to making payments during your Grace Period
 - Accrued Interest on Unsubsidized Loans

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Impact of Interest Capitalization

- Interest Capitalization occurs when unpaid interest is added to the principal amount of a loan
- Interest Capitalization often occurs at Repayment (at the end of your grace period)
- Examples:
 - On a \$50,000 loan, interest capitalized at the end of a 12 month deferment would be \$2,180 with an interest rate of 4.29% with a loan term of 10 years. This will increase the total loan cost by **\$539** over the life of the loan
 - On a \$100,000, the interest capitalized at the end of a 12 month deferment would be \$4,360 with an interest rate of 4.29% with a loan term of 10 years. This will increase the total loan cost by **\$1,079** over the life of the loan

Source: This information was gathered 3/2016 from <https://studentaid.ed.gov/sa/>

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Grace Period



Direct Subsidized, Direct Unsubsidized, Perkins and some private loans offer grace periods



Federal Consolidation Loans and Grad PLUS loans do not have grace periods

- Borrowers can postpone repayment on Federal loans via a deferment or forbearance
 - Borrowers have to meet the qualifying conditions for a deferment or a forbearance
- Borrowers may postpone repayment on Private loans via a forbearance
 - Borrowers have to meet the qualifying conditions for a forbearance

Federal Loan Repayment Plan Options NSLDS Repayment Comparison

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness	Repayment Period
Standard	\$277	\$277	\$33,267	\$0	120 months
Graduated	\$156	\$467	\$34,841	\$0	120 months
Revised Pay As You Earn (REPAYE)	\$268	\$413	\$32,403	\$0	97 months
Pay As You Earn (PAYE)	\$268	\$277	\$33,322	\$0	121 months
Income-Based Repayment (IBR)	-	-	-	-	-
IBR for New Borrowers	\$268	\$277	\$33,322	\$0	121 months
Income-Contingent Repayment (ICR)	\$229	\$246	\$34,764	\$0	146 months

Assumes \$27,000 in undergraduate Direct Loans (\$19,000 in subsidized and \$8,000 in unsubsidized loans) over a 4 year period. Assumes current interest rate of 4.25% for all loans, annual income of \$50,000 and household size of 1.

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

Federal Loan Repayment Plans

- Your NSLDS record will show you your eligible Federal Loan Repayment options. These may include the following:
 - Standard Repayment**
 - Level monthly payments that cover accruing interest and a portion of principal over a 10-year period
 - Higher monthly payments
 - Lowest overall cost
 - Graduated Repayment**
 - Payments start low, increase over time
 - Interest only payments followed by standard principal & interest
 - Finish in 10 years
 - Higher overall cost – but provides lower initial payment amounts
 - Can be combined with Extended Repayment

Federal Loan Repayment Plans (Continued)

- **Income Sensitive Repayment (Non-direct Federal Loans)**
 - Payments are based on a percentage of your monthly income
 - Payments must be sufficient to cover accruing interest
 - Finish in 10 years (may be extended to 15 years)
- **Income-Contingent Repayment (Direct Loans Only)**
 - Payment is based on income
 - Negative amortization is allowed
 - Up to 25 years to repay
 - Balance remaining after 25 years' worth of payments can be forgiven

Federal Loan Repayment Plans (Continued)

- **Extended Repayment**
 - Available to borrowers who have accumulated more than \$30K in Direct or FFELP Federal Stafford, PLUS & Consolidation loans first disbursed on or after October 7, 1998
 - Direct and FFELP Federal Loans are accumulated separately in determining eligibility
 - Repayment can be extended up to 25 years
 - Payments may be fixed or graduated
 - Permits you to manage monthly cash flow needs, but will increase your cost

Income Based Repayment (IBR)

- Available to FFELP and Direct Stafford Loan, FFELP and Direct Grad PLUS Loan and Consolidation Loan borrowers experiencing financial hardship
- The borrower qualifies if their annual monthly student loan payments exceed a set percentage of their "discretionary income"
 - The limit is 10% for individuals who are considered a new borrower on or after July 1, 2014
 - The limit is 15% for individuals who are not considered a new borrower on or after July 1, 2014
- If eligible for IBR, the borrower's monthly payment will be determined by a formula that takes into account household size and adjusted gross income. Increases in income will impact the required monthly payment amount
- The unpaid balance may be forgiven after a set number of years of scheduled monthly payments. (Note: The forgiven balance is reportable as income)
 - The balance will be forgiven after 20 years for those who are considered a new borrower on or after July 1, 2014
 - The balance will be forgiven after 25 years for those who are not considered a new borrower on or after July 1, 2014

Note: For the IBR Plan, you are a new borrower on or after July 1, 2014. If you had no outstanding balance on a Direct Loan Program loan or FFELP loan when you received a Direct loan on or after July 1, 2014. (Because no new FFEL Program loans have been made since June 30, 2010, only Direct Loan borrowers may qualify as new borrowers on or after July 1, 2014.)

Pay As You Earn (Direct Loans Only)

- Available to new Direct loan borrowers (except Parent PLUS) experiencing financial hardship
 - No loan balance as of October 1, 2007, and
 - Received a Direct loan on or after October 1, 2011
- Borrower qualifies if annual monthly student loan payments under a standard repayment plan exceed 10% of "discretionary income"
- Similar to IBR, borrower's monthly payment will be determined by a formula that takes into account family size and adjusted gross income. Increases in income will impact the required monthly payment amount
- Unpaid balance may be forgiven after 20 years of qualifying repayment

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Revised Pay As You Earn Repayment Plan (REPAYE)

- Direct Loans – Any Sub, Unsub, Consolidation (without PLUS loans) and PLUS loans made to students.
- Payments based on 10% of discretionary income.
- If married both spouses income and loan debt are considered even if file taxes separately.
- Loan forgiveness after 20 or 25 years. (Warning: this is likely a taxable event!)

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Federal Loan Forgiveness Program for Public Service Employees

- Eligibility limited to Federal Direct Student Loan Program (FDLP) Loans that are not in default
 - FFELP Stafford, PLUS and Consolidation are not eligible
 - Other loan programs may be eligible if they are consolidated into FDLP (FFELP, Perkins and certain health profession and nursing loans)
- Additionally, borrowers must have:
 - Made 120 on-time monthly payments beginning after October 1, 2007 during eligible public service employment.
 - Payments must be made under one of the payment plans: Income Based, Pay As You Earn, Income Contingent or any payment equivalent to the 10-year standard payment amount.
 - Worked *full time* in eligible public service employment for ten years after October 1, 2007.
 - At the time the remaining loan balance is forgiven, must be employed in an eligible public service job.
- Parents who received a Direct PLUS Loan may qualify for forgiveness of the PLUS loan, if the parent borrower—not the student on whose behalf the loan was obtained—is employed by a public service organization

Other loan forgiveness programs may also be available – do your research!

Source: This information was gathered 3/2016 from <https://studentaid.ed.gov/sa/>

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Federal Loan Forgiveness Program for Public Service Employees, cont.

To be eligible for PSLF, the 120 required payments must be made under one or more of the following Direct Loan Program repayment plans:

- Revised Pay As You Earn Repayment Plan (REPAYE Plan)
- Pay As You Earn Repayment Plan (PAYE Plan)
- Income-Based Repayment Plan (IBR Plan)
- Income-Contingent Repayment Plan (ICR Plan)
- 10-year Standard Repayment Plan
- Any other Direct Loan Program repayment plan; but only payments that are at least equal to the monthly payment amount that would have been required under the 10-year Standard Repayment Plan may be counted toward the required 120 payments

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What if I can't make my required Payment? Understanding Federal Loan Deferments

- **Contact your Servicer if you can't make your required Loan Payment.**
- **Deferment: Period when a borrower who meets certain criteria may postpone loan payments.**

- Application may be required depending on deferment type; recertification for subsequent deferment periods may also be required.
- Federal student loan deferments are "borrower" specific, meaning eligibility is attached to the borrower and there is a max deferment time allotted for certain deferments.
- The government pays interest on a borrower's behalf for subsidized loans during authorized deferment periods

Common Types of Deferments:

- ✓ In-School
- ✓ Economic Hardship
- ✓ Unemployment
- ✓ Military
- ✓ Graduate Fellowship

Note: Unsubsidized loans continue to accrue interest for which the borrower is responsible. Unless the interest is paid by the borrower, it may be capitalized (added to the loan's principal amount) at the end of the deferment period. To keep your total loan cost lower, you may want to consider paying all or some of the interest that accrues during this time.

Source: This information was gathered 3/2016 from: <https://studentaid.ed.gov/sa/>

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What if I can't make my required Payment? Understanding Federal Loan Forbearance

- **Contact your Servicer if you can't make your required Loan Payment.**
- **Discretionary Forbearance: Allows a borrower who cannot make scheduled payments to temporarily delay or reduce the payments**

- Interest continues to accrue on subsidized and unsubsidized loans during a forbearance period.
- Interest that accrues during the forbearance remains the borrower's responsibility.
- Unpaid interest may be capitalized (added to the loan's principal amount) at the end of the forbearance depending on the loan type and when the loan was disbursed. Additionally, there is a max forbearance time allotted.
- Capitalization of interest increases the amount to pay back, and will result in a higher payment amount after the forbearance. To keep your total loan cost lower, you may want to consider paying all or some of the interest that accrues during this time.
- Special note: Contact your Private Loan Servicer for details about Forbearance options for your Private Loan.

TIPS:
Be careful, the use of forbearance adds expense!
Forbearances can help you stay out of delinquency and default!

Source: This information was gathered 3/2016 from: <https://studentaid.ed.gov/sa/>

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Paying Loans Off Early

- Borrowers can always prepay federal and private student loans without penalty.
- Check with your Servicer on how your payment is allocated monthly, especially if you make more than the required minimum payment each month.
- Unless otherwise noted, loan payments typically are applied first toward fees, then interest, and finally principal.
- Be aware of the loan cost and make payments towards unsubsidized loans that have the highest interest rates and/or most frequent capitalization. This should save more money over time.

Delinquency & Default (Federal/Private Loans)

DELINQUENCY & DEFAULTS ON STUDENT LOANS CAN ADVERSELY IMPACT YOUR CREDIT HISTORY

- **Delinquency**
 - Failure to make payment(s) when due
 - Can be reported to credit bureaus; affects borrowers history
- **Default**
 - Collection agencies may take over, adding to cost
 - Lender can take legal action
 - School can withhold records
 - Ineligible for future Title IV funds
 - Federal defaults could result in wage garnishment & withholding of federal loan tax refunds
 - Student loans are rarely discharged in bankruptcy

Federal Loan Consolidation

- **Loan Consolidation**
 - Provides the ability for borrowers to consolidate all of their federal loans into one new loan
 - FFELP and Direct Stafford Loans, Perkins Loans and PLUS Loans may be consolidated
 - Interest Rate: weighted average of the interest rates on the loans being consolidated rounded to the nearest higher one-eighth of one percent
 - Multiple repayment options: Standard, Graduated, Extended, Income Contingent, Income Based
 - Benefits:
 - Possible Longer repayment period
 - Potential Lower monthly payment
 - Single Servicer
 - Application Process:
 - Apply at www.studentloans.gov

Refinancing your Student Loan

- Refinancing simply means taking out a new loan – at a lower interest rate – to consolidate and replace your old loans.
- Some Lenders, including CommonBond, offer a refinancing loan option that can save you tens of thousands of dollars – so you can finance your dreams.
- Understand benefits that may be lost with refinancing your loan.

Employee Benefit for Student Loan Repayment

- Ask future employers about Student Loan Repayment benefits.

The Budgeting Process

FOLLOW THESE STEPS:

- Keep good records
- Communicate
- Set goals specific to your situation
- Estimate income
- Estimate expenses
- Develop a monthly budget plan
- Put the budget into action
- Keep track of income and spending monthly
- Adjust the budget as necessary

Budgeting Tips

- Keep it simple
- Make a budget for your situation
- Consider all expenses and build in a cushion for unexpected expenses and savings
- Monitor monthly and make adjustments until you find a system that works well for you
- Identify wants and needs
- Borrow carefully
- Develop an emergency fund

Resources

- **School Financial Aid**
- **Lender/servicer**
- **Federal Student Aid Ombudsman**
 - U.S. Department of Education – FSA Ombudsman
<http://www.ombudsman.ed.gov> or 1-877-557-2575
- **Federal Loan Servicers:**
 - Great Lakes:** 800-236-4300 www.mygreatlakes.org
 - FedLoan Servicing:** 800-699-2908 www.myfedloan.org
 - Nelnet:** 888-486-4722 www.nelnet.com
 - Navient:** 800-722-1300 www.navient.com

Questions?

Thank you!

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