The Road to Successful Student Loan Repayment

NYU- Stern School of Business

Agenda

• What You Need to Know
• Income-Driven Repayment Plans Overview
  – Income-Based Repayment Plan (IBR)
  – Income-Contingent Repayment Plan (ICR)
  – Pay As You Earn Plan (PAYE)
  – Revised Pay As You Earn Plan (REPAYE)
  – Applying for an Income-Driven Plan

• Other Repayment Plans
• Public Service Loan Forgiveness
• Direct Loan Consolidation
• Resources
Successful repayment

Repayment Plans

Sometimes the right repayment plan makes all the difference in your ability to pay your student loan. The options are flexible, and there's sure to be one that will work for you.

Be aware that these repayment plans are not available on all loans, so check with your lender/loan servicer to find out which repayment options are available to you.

- Examine your financial situation carefully when you start repayment to make sure you use the plan that best meets your ability to pay.
- Changing your repayment plan is easy to do but usually requires that you submit your request in writing, since it is an official change to your existing agreement.

Types of Repayment Plans

- Standard
- Graduated
- Pay As You Earn (PAYE)
- Income-Based (IBR)
- Income-Contingent (ICR)
- Revised Pay As You Earn (REPAYE)
- Income Sensitive
- 25-Year Extended

Knowledge is Power!

Knowing how to track and manage their loans is the first step in successful repayment.
Grace Period

What is a Grace Period?

- Begins when you graduate, withdraw, or drop to less than half-time status
- You only get one, and it lasts 6 months
- You will receive your repayment obligation, which includes:
  - Date payments are to begin
  - Monthly payment amount
  - Repayment terms
  - Current principal balance
  - Interest rate

In School → Grace Period → Repayment

Does Every Loan have a Grace Period?

<table>
<thead>
<tr>
<th>Loans with a GRACE PERIOD</th>
<th>Loans without a GRACE PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stafford/Direct Subsidized and Unsubsidized</td>
<td>Grad PLUS</td>
</tr>
<tr>
<td>6 months after graduation</td>
<td>6 months after graduation due to automatic 6-month post-enrollment deferment</td>
</tr>
<tr>
<td>Private</td>
<td>Consolidation</td>
</tr>
<tr>
<td>Contact lender</td>
<td>At graduation</td>
</tr>
<tr>
<td></td>
<td>Prior loans where grace period has been used</td>
</tr>
<tr>
<td></td>
<td>At graduation</td>
</tr>
</tbody>
</table>
**Understand Your Options – Postponing Payments**

**Postpone Payments**
Everyone experiences financial difficulty at one time or another. Fortunately, you can usually postpone loan payments under certain circumstances using a deferment or forbearance.

A deferment or forbearance may be the right choice to keep your loan from entering default.

Loan programs come with limited amounts of deferment and forbearance time, so use these opportunities wisely.

---

**Student Loan Repayment**

**Deferments and Forbearance**
- If you are unable to send payments during your repayment period, call your lender/loan servicer immediately.
- You may qualify for a temporary suspension of payments.

**Common Types of Deferment**
- In-School
- Unemployment
- Economic Hardship

Ignoring the problem is not a solution---call for help.
Interest Capitalization

• **Accrued interest added to principal balance**
  – Accruing interest on interest

• **Frequency of Capitalization**
  – Less frequent capitalization is better
  – When does capitalization occur?

• **If possible, pay down interest prior to entering repayment**

Know Who You Owe

**National Student Loan Data Systems (NSLDS)**

- NSLDS allows borrowers to obtain their personal information on all your federal student loans.
- The NSLDS website provides the borrowers’ balances and past attendance status and identifies the lender(s)/loan servicer(s) of their federal student loan(s).

www.nslds.ed.gov
1-877-557-2575
Exit Counseling Repayment Plan Selection

- The Department shares borrower’s repayment plan preference from Exit Counseling on studentloans.gov with federal loan servicers and Federal Family Education Loan (FFEL) Program lenders, lender servicers, and guaranty agencies.
- Repayment plan selection will be considered by the servicer, and – if possible, applied to the borrower’s account.

Repayment Schedule Estimators

Check out the Repayment Estimators available at Fedloan Repayment Schedule Estimator and studentloans.gov
Who Should Consider Income-Driven Repayment Plans?

Borrowers with high student loan payments relative to income, such as:

- Teachers with heavy debt loads against low salaries
- Individuals who are experiencing financial difficulties but who may not qualify for other options such as deferment or forbearance
- Recent graduates managing typical federal student loan debt in low-wage jobs or unpaid internships
- Individuals pursuing lower paid social-service careers
- Law graduates earning low salaries as public defenders
- Medical residents earning typical resident salaries

Borrower Considerations

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>More manageable, lower monthly payment</td>
<td>Repayment period could be more than 10 years</td>
</tr>
<tr>
<td>Avoidance of delinquency and default</td>
<td>More interest could be paid over time</td>
</tr>
<tr>
<td>Remaining principal and interest is forgiven after 20 or 25 years of payments</td>
<td>Required annual submission of information on income and family size to prove continued eligibility for reduced payments</td>
</tr>
<tr>
<td>Possibility of Public Service Loan Forgiveness (after 10 years of qualifying payments)</td>
<td>Forgiven amount is taxable (except under PSLF)</td>
</tr>
</tbody>
</table>
Income-Based Repayment (IBR)

• Under IBR, borrowers pay the lesser of:
  – 15% of discretionary income or what they would have paid under the 10-year Standard repayment plan (Not a new borrower on/after 7/1/2014)
  – Discretionary income for this plan is the difference between the borrower’s Adjusted Gross Income (AGI) and 150 percent of the poverty guideline amount for his/her state of residence and family size.

• Loan forgiveness
  – If the borrower makes 25 years of qualifying payments and meets certain other requirements, any remaining balance will be cancelled.

IBR Payment Amounts

EXAMPLE:
Borrower’s AGI is $50,000 and they reside in 1 of the 48 contiguous states and a family size of 1.
– Poverty guideline for this example is
  $12,140 \times 150\% = $18,210
– Then we subtract $18,210 from $50,000 = $31,790 which is the discretionary income
– $31,790 \times 15\% = $4,768.50
  and divide that figure by 12 = $397.37
Leaving IBR

• If borrowers leave IBR and have unpaid interest, it will capitalize to principal, increasing principle balance

• The borrower is placed into the Standard Plan based on the term remaining for their loan type
  – For example, Stafford/PLUS Loans will have 10 years minus the time in repayment. Consolidation Loans may have 10-30 years minus the time in repayment.
  – Borrowers may request a reduced payment forbearance if they cannot afford the payment amount on the standard repayment plan.

• Borrowers who leave IBR can come back if they demonstrate "partial financial hardship".

Pay As You Earn (PAYE)

• Who qualifies:
  – "New" borrowers who have a PFH
    • Has no outstanding balance on a Direct or FFELP loan as of 10/1/2007, or has no outstanding balance on a Direct or FFELP loan when he or she obtains a new loan on/after 10/1/2007
    AND
    • Receives a disbursement of a Direct Subsidized or Unsubsidized Stafford, or Grad PLUS loan on or after 10/1/2011; or receives a Direct Consolidation Loan based on an application received on/after 10/1/2011

• Eligible Loans:
  – Direct Loans except:
    • Defaulted loans
    • Parent PLUS loans
    • Consolidation loans that repaid Parent PLUS loans
Pay As You Earn

• Under Pay As You Earn, borrowers pay the lesser of:
  – 10% of discretionary income or what they would have paid under the 10-year Standard repayment plan.
  – Discretionary income for this plan is the difference between the borrower’s AGI and 150 percent of the poverty guideline amount for his/her state of residence and family size.

• For Pay As You Earn, the remaining balance is forgiven after 20 years of qualifying repayment

Revised Pay As You Earn (REPAYE)

• Who Qualifies:
  – Any borrower with eligible federal student loans may make payments under this plan.

• Eligible Loans:
  – Direct Subsidized/Unsubsidized Loans
  – Direct PLUS Loans made to graduate or professional students
  – Direct Consolidation Loans that did not repay any PLUS loans made to parents
  – These loan types are eligible if consolidated into a Direct Consolidation Loan
    • Subsidized/Unsubsidized Federal Loans from the FFEL program
    • FFEL PLUS Loans made to graduate or professional students
    • FFEL Consolidation Loans that did not repay any PLUS Loans made to parents
    • Federal Perkins Loans
Revised Pay As You Earn

• Payment Amounts
  – Generally 10% of discretionary income
  – There is no cap on the payment amount (may be higher than the 10-year Standard Repayment amount)

• Repayment Period
  – 20 years if all loans you are repaying under the plan were for undergraduate study
  – 25 years if any loans you are repaying under the plan were for graduate or professional study

Income-Contingent Repayment (ICR)

• Does not require borrower to show PFH for eligibility
• Each year the monthly payments are recalculated based on:
  – AGI (spouse’s income will only be included if they file federal taxes jointly or are repaying under joint ICR
  – The Family size
  – Total amount of the borrower’s Direct Loans
  – Lesser one of the following:
    • 12-year standard repayment schedule multiplied by income percentage factor, or
    • 20 percent of discretionary income

• Loan balance is discharged after 25 years
### Interest Subsidy Benefits

<table>
<thead>
<tr>
<th>ICR</th>
<th>IBR</th>
<th>PAYE</th>
<th>REPAYE For sub. loans</th>
<th>REPAYE For unsub. loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>No subsidy</td>
<td>Sub. Loans only</td>
<td>Only during negative amortization</td>
<td>Only during negative amortization</td>
<td>Only during negative amortization</td>
</tr>
<tr>
<td></td>
<td>Only for first 3 years under plan</td>
<td>100% of negative amortization</td>
<td>Only for first 3 years under plan</td>
<td>100% of negative amortization</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>After 3 years, 50% of negative amortization</td>
</tr>
</tbody>
</table>

### Interest Capitalization

<table>
<thead>
<tr>
<th>IBR</th>
<th>ICR</th>
<th>PAYE</th>
<th>REPAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>• While payment is income-based, normal rules are suspended</td>
<td>• Normal rules apply (upon expiration of deferment/forbearance)</td>
<td>• While payment is income-based, normal rules are suspended</td>
<td>• Normal rules apply (upon expiration of deferment or forbearance)</td>
</tr>
<tr>
<td>• While normal rules suspended, only trigger is conversion to standard plan amount</td>
<td>• Interest accruing due to negative amortization is capitalized annually</td>
<td>• While normal rules suspended, only trigger is conversion to standard plan amount</td>
<td>• Interest capitalizes when leaving the plan</td>
</tr>
<tr>
<td>• Interest capitalizes when leaving the plan</td>
<td>• Capitalization of negative amortization interest is limited to 10% of balance</td>
<td>• Capitalization caused by conversion is limited to 10% of balance</td>
<td>• Capitalization is limited to 10% of balance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Income-Driven Repayment Examples

- Eligible Loan Debt $75,000
  (6.8% interest rate/unsubsidized)
- Starting AGI $50,000
  (AGI increasing 5% annually, Poverty Level Change Rate 3%)
- Family Size = 1

- Eligible Loan Debt $190,000
  (6.8% interest rate/unsubsidized)
- Starting AGI $50,000
  (AGI increasing 5% annually, Poverty Level Change Rate 3%)
- Family Size = 1
Applying for IDR

- Borrowers may apply for an IDR on studentloans.gov or complete a paper application.
- Can be used by borrowers with Direct Loans or FFEL Loans
- Uses IRS Data Retrieval Tool that is used on the FAFSA
- Retrieves the most recent tax information from two most recently completed tax years
- If a borrower selects a specific repayment plan that they are not eligible for, the borrower will be placed on the lowest monthly payment amount IDR plan for which they are eligible.
Application Process: Electronic or Paper

1. Select reason for submitting form
2. Provide information about spouse, if applicable
3. Determine what kind of income documentation to submit
4. Select plan, if submitting form to initially apply
5. Certify family size
6. Submit documentation of AGI or ADOI

ADOI = “alternative documentation of income;” not AGI.

Application Process: Spouses

- Almost all married borrowers provide spouse’s income documentation
- Only used by servicer when relevant
- Exception for those who are
  - Separated; or
  - Cannot access spouse’s income

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Married borrower filing jointly</th>
<th>Married borrower filing separately</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICR</td>
<td>Use joint AGI</td>
<td>Use borrower’s AGI</td>
</tr>
<tr>
<td>IBR</td>
<td>Use joint AGI</td>
<td>Use borrower’s AGI</td>
</tr>
<tr>
<td>PAYE</td>
<td>Use joint AGI</td>
<td>Use borrower’s AGI</td>
</tr>
<tr>
<td>REPAYE</td>
<td>Use joint AGI</td>
<td>Combine AGI of borrower and borrower’s spouse</td>
</tr>
</tbody>
</table>
Applying – Avoid Application Mistakes

The easiest way to apply for an IDR plan is online at studentloans.gov

Common Application Mistakes on the Paper Application

- Quoting Incorrect Income
- Incorrect Tax Documents
- Missing Pay Frequency
- Skipped Items & Inconsistent Information
- Missing Pages

Consequences of Failing to Recertify

<table>
<thead>
<tr>
<th>IBR</th>
<th>ICR</th>
<th>PAYE</th>
<th>REPAYE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest capitalization</td>
<td>Stay in plan</td>
<td>Stay in plan</td>
<td>Interest capitalization</td>
</tr>
<tr>
<td>Stay in plan</td>
<td>Payment no longer income-based; 10-year standard amount</td>
<td>Payment no longer income-based; 10-year standard amount</td>
<td>Kicked out of plan</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Loan re-amortized over lesser of 10 years or time to forgiveness</td>
</tr>
</tbody>
</table>
Standard & Graduated Repayment Plans

**Standard Repayment**
- Assigned to borrowers automatically unless otherwise specified
- Fixed (equal) payment amount each month, although it could vary due to interest rate changes on a variable rate loan
- Monthly payments will be at least $50
- 10-year repayment term (Standard Repayment for Direct Consolidation loans is 10 to 30 years based on balance)

**Graduated Repayment**
- Payments start low and generally increase every two years
- 10-year repayment term (Direct Consol. Loans may have a term of 10 to 30 years based on balance)
- Monthly payment is never less than the amount of interest that accrues each month
- No single payment will be more than three times greater than any other payment

Extended Repayment Plan

**Extended Repayment**
- Will pay a fixed or graduated payment amount
- Repayment term not to exceed 25 years
- FFEL borrowers must have more than $30,000 in outstanding FFEL Program loans (for new borrowers as of 10/07/1998)
- Direct borrower must have more than $30,000 in outstanding Direct Loans (for new borrowers as of 10/07/1998)
The Public Service Loan Forgiveness Program allows eligible borrowers to cancel the remaining balance of their Direct loans after serving full time at a public service organization for at least 10 years while making 120 qualifying monthly payments after October 1, 2007.

PSLF Basics

- 120 qualifying payments
- On Direct Loans
- On qualifying repayment plans
- While working full-time at qualifying employer

Eligible Loans

Only Federal Direct loans are eligible for PSLF, only those payments made on Federal Direct loans count toward the required 120 qualifying payments -- and only these Federal Direct loans will be forgiven.

- Direct Subsidized Loans
- Direct Unsubsidized Loans
- Direct PLUS Loans (for parents and graduate or professional students)
- Direct Consolidation Loans
  - Borrowers may choose to consolidate loans to establish eligibility for PSLF
- Special Direct Consolidation Loans
- TEACH Loans
Public Service Loan Forgiveness (PSLF) Payment Examples

| Eligible Loan Debt - $75,000 (6.8% interest rate/unsubsidized) |
|-------------------|-------------------|-------------------|-------------------|
| Starting AGI - $50,000 (AGI increasing 4% annually, Poverty Level Change Rate 3%) |
| Family Size = 1 |

<table>
<thead>
<tr>
<th>Pay As You Earn Repayment Plan</th>
<th>Income Based Repayment Plan (IBR)</th>
<th>Income Contingent Repayment Plan (ICR)</th>
<th>Standard Repayment Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Monthly Payment</td>
<td>$277.04</td>
<td>$415.56</td>
<td>$652.83</td>
</tr>
<tr>
<td>Maximum Monthly Payment</td>
<td>$410.87</td>
<td>$616.30</td>
<td>$766.30</td>
</tr>
<tr>
<td>Total Interest Paid</td>
<td>$40,822.81</td>
<td>$48,525.50</td>
<td>$36,769.87</td>
</tr>
<tr>
<td>Total Principal Paid</td>
<td>$0.00</td>
<td>$12,708.71</td>
<td>$51,806.45</td>
</tr>
<tr>
<td>Total Amount Paid</td>
<td>$40,822.81</td>
<td>$61,234.21</td>
<td>$88,576.31</td>
</tr>
<tr>
<td>Remaining Principal Balance and Unpaid Interest</td>
<td>$85,177.19</td>
<td>$62,404.54</td>
<td>$23,193.55</td>
</tr>
<tr>
<td>PSLF Total Loan Forgiveness</td>
<td>$85,177.19</td>
<td>$62,404.54</td>
<td>$23,193.55</td>
</tr>
</tbody>
</table>

Direct Loan Consolidation

Direct Loan consolidation allows borrowers to combine one or more existing student loans into a single new loan. Consolidation may be the right option for your borrower if:

- If student loan debt is significant.
- If borrower has more than one type of student loan.
- Has trouble making the minimum monthly payments on multiple loans.

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower monthly payments</td>
<td>Longer repayment schedule</td>
</tr>
<tr>
<td>Fixed interest rate</td>
<td>More interest to pay</td>
</tr>
<tr>
<td>One bill, one payment</td>
<td>Loss of loan incentives</td>
</tr>
</tbody>
</table>
### Servicing Resources

<table>
<thead>
<tr>
<th>Servicer</th>
<th>Contact Information for Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Phone</strong></td>
<td><strong>Website</strong></td>
</tr>
<tr>
<td>FedLoan Servicing</td>
<td>1-800-699-2908</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>1-800-236-4300</td>
</tr>
<tr>
<td>Nelnet</td>
<td>1-888-486-4722</td>
</tr>
<tr>
<td>Navient</td>
<td>1-800-722-1300</td>
</tr>
<tr>
<td>NSLDS</td>
<td>1-800-999-8219</td>
</tr>
<tr>
<td>Additional servicer contact information</td>
<td><a href="http://ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?lsc=1">http://ifap.ed.gov/ifap/helpContactInformationDetailedList.jsp?lsc=1</a></td>
</tr>
</tbody>
</table>

### Additional Resources

- **Income-Driven Repayment Plans: Frequently Asked Questions**

- **Repayment Calculators**
  [https://myfedloan.org/borrowers/additional-resources](https://myfedloan.org/borrowers/additional-resources)

- **Federal Student Aid (FSA) Repayment Information**

- **Department of Health and Human Services Poverty Guidelines - 2018**
  [https://aspe.hhs.gov/poverty-guidelines](https://aspe.hhs.gov/poverty-guidelines)

- **PSLF Fact Sheet and Q&As**
  [studentaid.ed.gov/publicservice](studentaid.ed.gov/publicservice)

- **CFPB Action Guide for Employees**
FedLoan Servicing was established by the Pennsylvania Higher Education Assistance Agency (PHEAA) to support the U.S. Department of Education’s ability to service student loans owned by the federal government.