

**THE
GRADUATE
CENTER**

CITY UNIVERSITY
OF NEW YORK

Loan Repayment Strategies

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Topics covered

- Repayment options (Income-driven v. Non-income-driven)
- How to choose the best option for you
- What happens if you go back to school
- Public Service Loan Forgiveness
- Resources

How much did you borrow?

- Visit NSLDS at www.nsls.ed.gov
 - Provides entire federal loan history
 - Includes original and current balance, dates of disbursement, and loan servicer
 - Loan servicers = who you actually make your payments to (Ex. Navient, Nelnet, etc.)
- Complete Exit Counseling at www.studentloans.gov
 - Requirement for all borrowers but also gives loan totals
- Private student loans?
 - Check your credit report at www.annualcreditreport.com

What types of federal loans are there?

- As a graduate student:
 - Federal Direct Unsubsidized
 - Federal Direct Grad PLUS
 - Perkins loan
- As an undergraduate/prior grad degree:
 - Subsidized/Unsubsidized Stafford
 - Direct or FFELP
 - Perkins loan

When do I have to start paying?

- Generally 6 months after you graduate, withdraw, or drop to less than half time enrollment (9 months for Perkins)
- If you borrowed in undergrad or previous grad program AND already used your grace period, those earlier loans go into immediate repayment (contact your servicer immediately)

Federal Loan Repayment Options

- **Non-income Driven Plans**
 - Standard
 - Graduated
 - Extended – Fixed or Graduated
- **Income Driven Plans**
 - Income Based Repayment (IBR)
 - New Income Based Repayment (IBR)
 - Pay As You Earn (PAYE)
 - REPAYE (Revised PAYE)

A couple things to note . . .

- Under the terms of your prom note, you can change repayment plans any time
- There is one additional Income Driven Plan known as “Income Contingent” that is still available- however, it is a less desirable option so no need to cover it in detail
- You can always prepay/pay off your loans at any time without penalty

How to compare plans

- Go to loan calculators at www.finaid.org, www.studentloans.gov or at your loan servicer's website
- Input separately those loans with the same interest rates
- Add the repayment amounts for each of those loans to get an estimate of your monthly repayment amount

Non-Income Driven Plans

Standard Plan

- Fixed amount each month for 10 years
- Highest monthly payment
- Will cost the least amount in interest over life of the loan

Graduated Plan

- Payments start low and gradually increase every two years

Extended Plan

- 25 year term
- Will pay a fixed or graduated amount
- Must have more than \$30,000 You will pay considerably more in interest over the life of the loan

Income Driven Repayment Plans: IBR, New IBR, PAYE, REPAYE

- **Who should choose an Income Driven Repayment Plan?**
 - Graduates with high debt relative to their income
 - Anyone experiencing financial difficulties in repaying their loans
 - Anyone planning to take advantage of the Federal Public Service Loan Forgiveness Program

Income Based Repayment (IBR)

- Limits loan repayments to 15% of Discretionary Income (DI)
- DI is 150% of the poverty level for your family size in the state where you live subtracted from your Adjusted Gross Income (AGI)
- Married graduates if they file their taxes “married-filing separately,” only the borrower’s income will count
- Government pays unpaid accrued interest on the Subsidized portion of your debt for up to three consecutive years if your payments do not cover that interest
- 25 year cancellation (taxable income!)
- Payments capped at 10 year standard amount

IBR Eligibility Requirements

- **Available on all Federal loans, BUT NOT** Parent PLUS Loans or FFELP or Direct Consolidation Loans that repaid a Parent PLUS Loan
- No need to consolidate to be eligible
- Must be experiencing a “partial financial hardship” (defined later!)
- Payments adjusted annually **which requires annual submission of documents. Very important!**

Pay As You Earn (PAYE)

- Repayments limited to 10% of Discretionary Income (DI)
- DI is 150% of the poverty level for your family size in the state where you live subtracted from your Adjusted Gross Income (AGI)
- Married graduates if they file their taxes “married-filing separately,” only the borrower’s income will count
- Government will pay the unpaid accrued interest on the Subsidized portion of your debt for up to three consecutive years if your payments don’t cover it
- **Amount capitalized is capped at 10% of amount owed when you entered PAYE**
- After 20 years, any balance remaining will be forgiven.
- Payments capped at 10 year standard amount

PAYE Eligibility Requirements

- Direct Loans and Direct Consolidation Loans ONLY**
- New Borrower*** as of 10/1/07 **AND**
- Must have a Direct Loan disbursement on/after 10/1/11
- The disbursement after 10/1/11 can be a Direct Consolidation Loan
- Must be experiencing a partial financial hardship
- Payments adjusted annually **which requires annual submission of documents. Very important!**

*You are a new borrower if you had no outstanding balance on a Direct Loan Program loan or a Federal Family Education Loan Program loan as of October 1, 2007 or have no outstanding balance on such a loan on the date you receive a new loan after October 1, 2007.

NEW IBR

- New IBR is for first time federal loan borrowers as of 7/1/14
- It is basically the PAYE Repayment Plan, *i.e.*, 10% of Discretionary Income, with new eligibility dates
- Forgiveness after 20 years of on-time payments

REPAYE

- Repayments limited to 10% of Discretionary Income (DI)
- 20 year forgiveness if undergrad loans only; 25 years if grad loans.
- Forgiveness taxable
- If payment is less than monthly interest, excess interest reduced by 50%
- Eligible for PSLF
- ***If married, ALWAYS counts both incomes regardless of filing status (different from all other income driven plans)
- NO CAP on payments!
- Direct Loans only

Partial Financial Hardship (PFH)

- **PFH is a requirement for IBR, New IBR, PAYE and REPAYE**
- Borrowers are experiencing a partial financial hardship when...
- Loan payments under IBR, PAYE, or REPAYE are less than borrowers would have to pay on their total debt calculated on a ten year repayment term

Adjusted Gross Income

- Payments are calculated based on prior year's Adjusted Gross Income
 - 1040 – line 37
 - 1040A – line 21
 - 1040EZ Line 4
- If married filing jointly, both incomes
- If married, filing separately, only borrower's AGI (for PAYE, IBR and NEW IBR only)
- Both incomes count regardless of filing status for REPAYE
- Servicer may require new graduate to use current income if no income in the prior tax year and Alternative Documentation form may be required.

How to Apply for IBR, New IBR, ICR, PAYE OR REPAYE

- Go to www.studentloans.gov to complete the on-line application
- Log in and you will see the application.
- May release prior year's tax forms electronically
- Must affirm that the information on your prior year's tax form substantially represents your current financial situation. If not, complete alternative documentation of income form (paper).
- Be sure to note whether the application has been sent to all your loan servicers, if you have more than one.

ANNUAL RECERTIFICATION FOR INCOME DRIVEN PLANS

- On their anniversary date, borrowers will receive notice of the deadline by which they must submit the required documentation.
- Borrowers may use the electronic application to recertify
- Borrowers submitting income documentation w/i ten days of the deadline will have their current repayment amount maintained until a new payment is calculated. Otherwise a forbearance will be processed, causing additional interest to be capitalized.

What if don't recertify?

- Generally placed in 10 year plan (so a really big payment!)
- What this means: whatever you do, don't miss the annual deadline!
- If have any worries when it's getting late, call your servicer immediately.

How to choose a repayment plan?

What to Weigh:

Lower monthly payment vs. increased payment of interest over time

Lower monthly payments and use the savings you incur each month to invest for your future!

What if you can't pay your loans

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- **Contact your Loan Servicer(s) Immediately**

Two Options: (1) Request a Deferment – may be difficult

Deferment Types:

- Unemployment
- Economic Hardship
- Graduate Fellowship (full-time)
- Rehabilitation Training (full-time)
- Military Service
- Half-time enrollment in an eligible school

Three year Maximum

Government pays the interest on your subsidized debt during deferment, not forbearance!

Second Option....

- **Change Repayment Plans**
- Consider IBR, PAYE, or REPAYE if eligible
- **Remember, \$0 income warrants a \$0 payment and the Government pays the interest on your subsidized debt for three consecutive years during IBR & PAYE—same as if your loans were deferred and you're not using up your three-year maximum on deferment!**
- Maybe you can afford the Extended Repayment Plan – 25 years
- **All else fails, ask for a forbearance!**
- You are responsible for all interest accrued during forbearance and this interest will be capitalized.

What happens if I go back to school?

- As long as enrolled at least half-time in a degree seeking program, your loans will be in an “in-school” deferment
- However- interest continues to accrue on all unsubsidized loans!

Should I Consolidate?

Maybe not! Unless you have

- FFELP loans that are ineligible for the Federal Public Service Loan Forgiveness Program
- FFELP loans that are ineligible for PAYE
- Or need a Direct Loan disbursement after 10/1/11 to become eligible for PAYE
- www.loanconsolidation.ed.gov and www.studentloans.gov

Be wary of consolidating federal loans into a private consolidation loan because you will lose all federal protections such as deferment, forbearance, income-driven repayment, forgiveness and cancellation.

What else should I know.....

Repayment Incentives

.25% interest rate reduction for auto debit—not much but a considerable savings over the life of the loan

Prepayments

No penalty

Saves interest

Always prepay highest interest rate loans first, not smallest loan

Ask lender how to prepay

What else.....

- ✓ Update all your servicers with current contact information
- ✓ Create an on-line account with your loan servicer.
- ✓ Don't miss your first loan repayment!
- ✓ Open and read all mail concerning your loans
- ✓ Avoid Delinquency/Default – **Can't pay, call your Servicer immediately**
 - Delinquency = you miss a payment
 - Default = delinquency continues for 270 days
- ✓ Are you eligible for any loan forgiveness programs?

Consequences of Default—it gets ugly!

- Debt acceleration – entire loan balance becomes due immediately
 - Reported to all major credit reporting agencies – kills your credit!
 - Sent to a collection agency – this will cost you an additional 25% – 33% more than you already owe
 - Tax refunds may be seized
 - Wages may be garnished
 - Lawsuits may be filed
 - You're responsible for collection fees, plus court costs and attorneys' fees
 - Your employment and Bar admission may be jeopardized
- Your Federal loans will stay with you until paid back.
Federal education loans are rarely ever written off!**

Rehabilitation

Brings a Federal loan out of default by complying with specific Federal requirements. You must

- Request rehabilitation
- Make 9 on-time monthly payments
- Sign a rehabilitation agreement
- Procedures vary so check with your servicer

Here's the key:

Upon completion of the Rehabilitation Agreement, your lender must

- return your loan account to regular repayment status
- remove the default from your credit history

▶ **This is a one-time and one time only opportunity.**

PSLF Basics

- **FEDERAL PUBLIC SERVICE LOAN FORGIVENESS – WHAT IS IT AND HOW DOES IT WORK?**

What is PSLF?

- ▶ 120 on-time, full, scheduled monthly payments
- ▶ on your qualifying Federal Loans
- ▶ made under a qualified repayment plan
- ▶ while employed full-time at a qualifying public service organization
- ▶ after which any remaining balance is forgiven

What Loans Qualify for PSLF?

- Direct Loans
- Direct Consolidation Loans

What Loans Don't Qualify for PSLF?

- FFELP Loans
- Perkins Loans
- Private Loans
- Parent PLUS Loans

What Employment Qualifies....very broad definition.

- Government organizations, agencies and entities
- Non-profit 501(c)(3)'s
- Private non-profits that provide specified public services
- AmeriCorps
- Peace Corps

Qualifying Employment is NOT a...

- Labor union
 - Partisan Political Organization
 - Member of Congress
- Or a job with duties related to
- Religious instruction
 - Worship services or
 - Any form of proselytizing

Qualifying payments for Federal Public Service Loan Forgiveness

You have several repayment options on your Federal Loans—only payments made under any one or combination of the following repayment options will count toward FPSLF:

- Income Based Repayment (IBR)
- New IBR
- Pay As You Earn (PAYE)
- Revised Pay as Your Earn (REPAYE)
- Income Contingent Repayment (ICR)
- Standard (ten-year) Repayment

Payments made under the wrong plan will not count toward the 120!!!!

How to apply?

- Complete Employer Certification Form once you're in an eligible job
- Link:
<https://studentaid.ed.gov/sa/sites/default/files/public-service-employment-certification-form.pdf>
 - Fed Loan Servicing will then evaluate your loans, etc., and let you know how many payments you've made that qualify
 - Not required but recommended- submit this annually!

Contacts....

NSLDS	www.nsls.ed.gov
PIN Site	www.pin.ed.gov
Public Service Loan Forgiveness Q & A's	www.studentloans.gov
Income Based Repayment Fact Sheet & Q&A	www.studentloans.gov
Direct Consolidation Loans	www.loanconsolidation.ed.gov
FSA Ombudsman	www.ombudsman.ed.gov
Database of 501(c)(3) Organizations	http://www.irs.gov/app/pub-78/
Federal Loan Servicers:	
FedLoan Servicing (PHEAA)	www.MyFedLoan.org
Great Lakes	www.mygreatlakes.org
Nelnet	www.nelnet.com
Navient	www.salliemae.com
Mohela	www.Mohela.com

Questions?

- Shoot me an email at rdent@gc.cuny.edu
- Good luck!!