

# Choosing the Repayment Plan That's Right for You

## Access Group Webinar

***October 28, 2008***

**This Webinar will begin at  
7:00 p.m. Eastern Time**



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# Today's speaker:



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# Housekeeping

- **Connection**
- **Disconnected?**
- **If you have questions ...**
- **Webinar recording**
- **PDF of slides**

# To successfully manage loan repayment, you should ...

- ✓ **Know how much you have to repay and to whom**
- ✓ **Understand the terms and conditions of your loans**
- ✓ **Define your short- and long-term financial goals**
- ✓ **Develop an affordable budget plan and estimate how much you can afford to pay each month on your debt**
- ✓ **Keep good financial records**
- ✓ **Select the repayment plan that best achieves your goals given what you can afford to pay each month**
- ✓ **Take advantage of loan forgiveness programs when you qualify for them**

A spiral-bound notebook with a cork cover and a blank page. The notebook is open, showing a white page with a black spiral binding on the left side. The text is centered on the page in a blue, sans-serif font.

# Federal Student Loan Repayment Options

# Repayment Plans

Federal Family Education Loan Program (FFELP)

- **Standard (Fixed) Repayment**
- **Graduated Repayment**
- **Extended Repayment**
- **Income-Sensitive Repayment**
- **Income-Based Repayment** (*effective 7/1/2009*)

Choice of a repayment plan may depend on your eligibility for that plan. Once a plan is chosen, you are allowed to change to a different plan provided you qualify for that plan.

# Standard Repayment

- **Monthly payment is fixed – the same minimum payment is due each month (*your monthly payment typically changes only if your loan has a variable interest rate and that interest rate changes*)**
- **Maximum repayment period is 10 years on Federal Stafford/Federal PLUS Loans**
- **Results in lowest amount of total interest paid**
- **Requires the highest initial monthly payment**

**Your loan holder/servicer will place you on this repayment plan unless you choose one of the other available repayment plans and notify your loan holder/servicer of that choice**

# Graduated Repayment

- **Payments start low, then increase in one or more increments over time**
- **Maximum repayment period is 10 years on Federal Stafford/Federal PLUS Loans**
- **Results in higher cost of interest paid than under Standard Plan**
- **Lenders must offer at least one graduated repayment plan; some offer more than one graduated option**

# Extended Repayment

- **Fixed or graduated (tiered) payments over 25 year repayment period**
- **Lower monthly payment than Standard or Graduated Plans with 10-year repayment schedules**
- **More total interest paid**
- **Available only to those who:**
  - **First borrowed a FFELP loan on or after 10/7/98, or**
  - **Have no outstanding balance on a FFELP loan that was borrowed prior to 10/7/98**
- **Must have more than \$30,000 in FFELP debt**

# Income-Sensitive Repayment

- **Eligibility based on your expected total gross monthly income received from all sources and loan amount**
- **Payment must at least equal interest charges**
- **Reviewed and adjusted annually in case of any income changes**
- **Maximum repayment period is 15 years on Federal Stafford/Federal PLUS Loans**
- **Results in lower monthly payment, but higher cost of interest paid**

# Income-Based Repayment (IBR)

- **Effective July 1, 2009, you can use IBR to repay Federal Stafford, Grad PLUS and Consolidation Loans if you have “partial financial hardship”**
- **Amount due is lesser of:**
  - Amount required using 10-year Standard Plan, OR
  - Amount required using IBR
- **Monthly payment is based on:**
  - Household AGI
  - Household size
  - HHS Poverty Guideline
  - State of residence

# Income-Based Repayment

## More Details

- **Calculated payment is 15% of “disposable” income**
- **“Disposable” income is portion of household AGI that exceeds 150% of the HHS Poverty Guideline**
- **Monthly payment can be less than accrued interest (it allows for negative amortization)**
- **Unpaid interest that accrues on Subsidized Stafford debt will be subsidized for up to 3 years during IBR**
- **Repayment period using IBR can extend beyond 10 years regardless of the amount of your eligible debt**
- **Any outstanding eligible loan balance is cancelled after 25 years of being “economically challenged”**

# Repayment Plans

## Comparison of Terms

Options	Payment Structure	Maximum Payment Period	Additional Features
<b>Standard</b>	<b>Fixed</b>	<b>10 years</b>	<ul style="list-style-type: none"> <li>- Highest initial payment</li> <li>- Lowest total interest</li> <li>- No negative amortization</li> </ul>
<b>Graduated</b>	<b>Tiered</b>	<b>10 years</b>	<ul style="list-style-type: none"> <li>- Interest only payments initially</li> <li>- Payments increase incrementally</li> <li>- No negative amortization</li> </ul>
<b>Extended</b>	<b>Fixed or tiered</b>	<b>25 years</b>	<ul style="list-style-type: none"> <li>- Lowest initial payment without considering income</li> <li>- No negative amortization</li> <li>- To qualify in FFELP:               <ul style="list-style-type: none"> <li>- FFELP debt must be &gt; \$30,000</li> <li>- First borrowed FFELP ≥ 10/7/98</li> </ul> </li> </ul>
<b>Income Sensitive</b>	Adjusted annually based on: <ul style="list-style-type: none"> <li>- Total gross income</li> </ul>	<b>15 years</b>	<ul style="list-style-type: none"> <li>- Monthly payments can't be more than three times greater than any other payment</li> <li>- No negative amortization</li> </ul>
<b>Income Based (IBR)</b> <b>Available July 1, 2009</b>	Adjusted annually based on: <ul style="list-style-type: none"> <li>- Household AGI</li> <li>- Household size</li> <li>- Poverty guideline</li> <li>- State residence</li> </ul>	<b>25 years</b>	<ul style="list-style-type: none"> <li>- Payment is 15% of "disposable" income if experiencing "partial financial hardship"</li> <li>- Eligibility/payment amount re-evaluated annually</li> <li>- Negative amortization allowed</li> </ul>

# Comparing Payment Plans

\$100,000 Stafford Loan Balance

Options	Standard	Graduated	Extended	IBR
Monthly Payment	\$1,151	\$567 (2 yrs)	\$694	\$555 (1 <sup>st</sup> yr)
		\$1,353 (8 yrs)		\$703 (9 <sup>th</sup> yr)
Maximum Payment Period	10 years	10 years	25 years	25 years
<i>Total Paid</i>	\$138,096	\$143,530	\$208,222	???

- Assumptions:**
- 6.80% fixed interest rate
  - No payment incentives
  - For IBR Payment:
    - Household AGI = \$60,000 in year 1, then increases by 3% annually
    - 2008 Poverty Guideline for household size of 1 = \$10,400

A spiral-bound notebook with a cork cover and a blank page. The page is cream-colored and features the text "Choosing Your Repayment Plan" in a dark blue, serif font. The spiral binding is visible on the left side of the page.

# Choosing Your Repayment Plan

# Choosing A Repayment Plan

Steps to consider ...

- 1. Define financial goals**
- 2. Develop an affordable budget plan**
  - **This will help determine how much one can afford to pay each month on their debt**
- 3. View debt as a portfolio**
  - **Evaluate trade-offs given goals and available funds**
- 4. Select the loan repayment plan that best meets individual needs**

# Setting Goals

## Sample Questions

- **How quickly do I want to be debt-free?**
- **What do I want to buy as soon as I graduate?**
- **What kind of lifestyle do I want?**
- **What are my hopes for my family?**
- **How long do I want to work?**
- **When do I want to retire?**
- **What kind of lifestyle do I want in retirement?**
- **How much money will I need to invest to retire?**

# Developing a Budget Plan

How much can you afford to pay each month?

- **Quantify monthly earnings and other available financial resources**
- **Estimate monthly expenses**
  - **Include monthly student loan payment**
  - **Include investment/savings contributions**
- **Do the math—*subtract expenses from earnings to determine if there is a surplus or a deficit***
  - **If there is a surplus, more can be allocated to debt repayment, to investment/savings, and/or to lifestyle**
  - **If a deficit occurs, then what?**

# Will there be a deficit?

An example from the JD Class of 2007



**RED indicates a deficit is likely**

Employer Type	Median Salary*	\$60,000 Stafford Loan Debt		\$25,000 Auto Loan	\$250,000 Mortgage	10 year plan	25 year plan
		10 year loan period	25 year loan period	5 year loan period	30 year loan period		
		Payment \$690	Payment \$416	Payment \$483	Payment \$1,748		
		Ratio	Ratio	Ratio	Ratio	Total Ratio	Total Ratio
Private Practice	\$108,500	8%	5%	5%	19%	32%	29%
Business	\$69,100	12%	7%	8%	30%	51%	46%
Government	\$50,000	17%	10%	12%	42%	70%	64%
Judicial Clerkship	\$48,000	17%	10%	12%	44%	73%	66%
Academic	\$45,000	18%	11%	13%	47%	78%	71%
Public Interest	\$42,000	20%	12%	14%	50%	83%	76%
All Employer Types	\$65,750	13%	8%	9%	32%	53%	48%

\*Salary data taken from "Jobs & JD's, Class of 2007" © 2008 NALP

Fannie Mae Norm =	
28%	36%

# Eliminating a Budget Deficit

What can you do?

If you have a budget deficit, you need to spend less (or earn more) each month; there is no more financial aid! Failure to eliminate the deficit will increase your total debt.

- **Reduce spending on your lifestyle**
  - **Is this realistic? You may consider your lifestyle to be “bare bones” already**
- **Reduce your investment/savings contributions**
  - **Doing so may make it more difficult to achieve short- and long-term financial goals**
- **Reduce amount you pay each month on student loans by switching to a different payment plan**

# Extended Repayment

Why it might be right for you ...

- **Provides more affordable monthly payment without having to consolidate or rely upon an income-based plan that requires yearly adjustments and the possibility of negative amortization**
  - **Reduces monthly payment on Stafford Loans by 40%**
  - **Reduces monthly payment on PLUS Loans by 35%**
- **Extending repayment will increase the total amount of interest paid, but:**
  - **That may not reduce your purchasing power in the long run depending on the rate of inflation**
  - **And, it may make it possible to afford basic living expenses more easily**

# Extended Repayment

More on why it might be right for you ...

- **Lowering your monthly federal loan payments will give you more cash each month for:**
  - **Affording basic living expenses, something that may not be possible with the Standard 10-year fixed payment plan**
  - **Paying down higher cost debt like private loans and credit card debt more quickly**
  - **Saving for down payment or the purchase of a new home**
  - **Investing for retirement, children's education and other long-term financial goals**
- **You retain the right to make prepayments if you so choose, but extending repayment provides more flexibility financially**

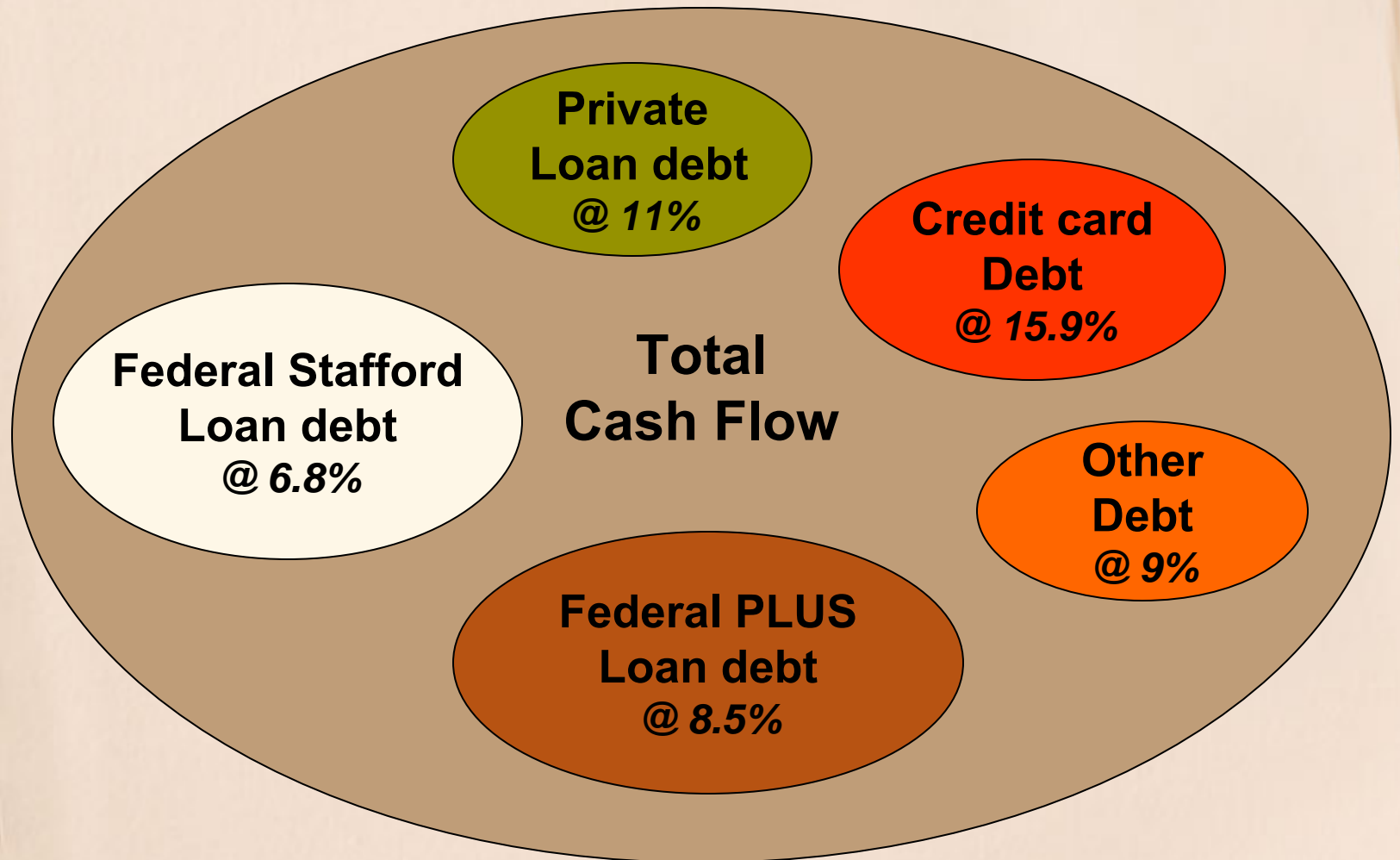
# Managing Debt

## Balancing Trade-offs

- **Consider viewing your debt as a portfolio that can be leveraged to achieve your financial goals**
- **You may choose to pay off debt ...**
  - **as fast as possible, OR**
  - **more slowly based solely on what is affordable given all other expenses, OR**
  - **more slowly to maximize ability to save and/or invest for the future**
- **When prepaying debt, ALWAYS prepay your highest cost debt(s) first**

# Typical Debt Portfolio

Managing Cash Flow to Repay Debt



# Loan Repayment

## An Investment Trade-off

<b>Years 0-10</b>	<b>Standard Repayment</b>	<b>Extended Repayment</b>
<b>Total years in repayment</b>	<b>10</b>	<b>25</b>
<b>Total amount owed</b>	<b>\$100,000</b>	<b>\$100,000</b>
<b>Monthly loan payment</b> <i>(annual interest rate = 6.8%)</i>	<b>\$690</b>	<b>\$416</b>
<b>Monthly investment</b>	<b>\$0</b>	<b>\$274</b>
<b>Total assets @ end of year 10</b> <i>(annual rate of return = 8%)</i>	<b>\$0</b>	<b>\$43,136</b>

# Loan Repayment

## An Investment Trade-off

<b>Years 11-25</b>	<b>Standard Repayment</b>	<b>Extended Repayment</b>
<b>Monthly loan payment</b> <i>(annual interest rate = 6.8%)</i>	<b>\$0</b>	<b>\$416</b>
<b>Monthly investment</b>	<b>\$690</b>	<b>\$274</b>
<b>Total assets @ end of year 25</b> <i>(annual rate of return = 8%)</i>	<b>\$212,536</b>	<b>\$237,461</b>
<b>Total paid</b> <i>(\$690 x 300 months)</i>	<b>\$207,000</b>	<b>\$207,000</b>
<b>Net gain</b>	<b>\$5,536</b>	<b>\$37,461</b>
<b>Difference</b> <i>(benefit of Extended Repayment)</i>	<b>\$0</b>	<b>\$31,925</b>
<b>Investment gains require financial DISCIPLINE every month!</b>		

# Comparison of Plans

## Standard, Extended and IBR Plans

<b>Eligible Federal Loan Debt</b>	<b>\$60,000</b>	<b>\$100,000</b>	<b>\$150,000</b>
<b>Standard Repayment</b> <i>Fixed payment @ 6.8% for 10 yrs</i>	<b>\$690</b>	<b>\$1,151</b>	<b>\$1,726</b>
<b>Extended Repayment</b> <i>Fixed payment @ 6.8% for 25 yrs</i>	<b>\$416</b>	<b>\$694</b>	<b>\$1,041</b>
<b>IBR Repayment</b> <i>Fixed payment @ 6.8% up to 25 yrs, AGI=\$60,000, Household size = 1</i>	<b>\$555</b>	<b>\$555</b>	<b>\$555</b>
<b>Difference in first monthly payment between Extended Plan and IBR</b>	<b>(\$139)</b>	<b>\$139</b>	<b>\$486</b>

# Loan Prepayment

- **You have the right to make prepayments on your federal student loan(s) without penalty**
- **In other words, you can pay more than minimum amount required or make extra payment(s) at any time**
  - **Doing so will reduce the total amount you'll pay on the loan because it saves the interest that would have accrued on the prepaid funds**
- **When prepaying on a loan, you should:**
  - **Verify where prepayment should be mailed and include written explanation as to how it's to be applied**
  - **Request that prepayment be applied to principal, if permitted**
  - **Target prepayment at loans having highest interest rate**

# Payment Incentives

- You should take advantage of any payment incentives that are offered by your loan holder(s)
- Typical incentives include:
  - Interest rate reduction (typically 0.25%) for making loan payments using auto-debit process
  - Interest rate and/or loan principal reductions for making a specified number of on-time payments

*(Note, many lenders have stopped offering on-time payment incentives due to recent changes in the federal loan programs, but you may still qualify for one that was offered to you on a loan that you borrowed in prior years)*

# Loan Repayment Assistance and Loan Forgiveness Programs

- **Loan repayment assistance programs (LRAPs) and loan forgiveness may be available if borrowers qualify and funding is available**
- **Programs typically are sponsored/funded by:**
  - **School of attendance**
  - **Employer**
  - **Federal, state or local government/jurisdiction**
- **New programs that were created by CCRAA and HEOA:**
  - **Public Service Loan Forgiveness Program**
  - **John R. Justice Prosecutors and Defenders Incentive Act**
  - **Legal Assistance Loan Repayment Program**
  - **Loan forgiveness for service in areas of national need**



A Few Final Comments ...

# Comparing Payment Plans

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Monthly Payment	\$1,151	\$567 (2 yrs)	\$694	\$555 (1 <sup>st</sup> yr)
		\$1,353 (8 yrs)		\$703 (9 <sup>th</sup> yr)
Maximum Payment Period	10 years	10 years	25 years	25 years
Payment Structure	Fixed	Tiered	Fixed (assumed)	Adjusted annually

**Assumptions:**

- 6.80% fixed interest rate
- No payment incentives
- For IBR Payment:
  - Household AGI = \$60,000 in year 1, then increases by 3% annually
  - 2008 Poverty Guideline for household size of 1 = \$10,400

# When Choosing a Repayment Plan

You should consider the following ...

- **If you want to pay the least amount of total interest over the life of repayment**
  - **Standard Repayment Plan with a 10-year repayment schedule will result in the least amount of interest paid**
- **If you want the lowest possible monthly federal student loan payment**
  - **Income-Based Repayment Plan likely will require the lowest monthly payment for those who qualify, but it could result in negative amortization and that will add to the total debt being repaid; it also requires annual adjustments**
  - **Extended Repayment Plan over 25 years will result in a lower monthly payment than Standard Repayment over 10 years without the possibility of negative amortization**

# Remember, to successfully manage loan repayment ...

- ✓ **Know how much you have to repay and to whom**
- ✓ **Understand the terms and conditions of your loans**
- ✓ **Define your short- and long-term financial goals**
- ✓ **Develop an affordable budget plan and estimate how much you can afford to pay each month on your debt**
- ✓ **Keep good financial records**
- ✓ **Select the repayment plan that best achieves your goals given what you can afford to pay each month**
- ✓ **Take advantage of loan forgiveness programs when you qualify for them**

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Questions

We're here to help you!

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