Federal student loans are unique ...

- You should never miss a payment or default
  - Payment relief options exist that provide “safety nets”
- Payments can be less than 15% of your AGI
  - Flexible payment options including income-driven repayment plans that can limit debt-to-income ratio impacts
- Debt could be gone within 25 years
  - Portion of debt could be forgiven if not fully repaid

Your “educational mortgage” should not prevent you from:
- Pursuing your desired career
- Achieving your financial goals

Your Action Plan

4 Steps

1. Take stock of your loan portfolio
2. Determine when repayment begins
3. Pick your repayment plan
4. Evaluate if “Consolidation” is beneficial

Remember, you must repay all that you owe!
Step 1
Review your loan history

What do you need to know?

For each loan in your portfolio:
- Type of loan
- Interest rate
- Amount owed
- Who to repay
- When repayment begins and current loan status
- Repayment options

NSLDS.ed.gov
“Financial Aid Review”—A Useful Resource

To access, enter:
- SSN
- First two letters of your last name
- Birthdate
- Dept. of Ed PIN

Duplicate PIN available at:
PIN.ed.gov
License holder - holder of the direct loan

Loan Summary Screen
A. “Type of Loan” – Is it a “Direct” loan?
B. “Total Owed” (“Outstanding Principal” + “Outstanding Interest”)

Loan Details Screen
A. “Scheduled Start of Repayment” or “Date Entered Repayment”
B. “Loan Status”
C. “Current Lender” / “Current Servicer” (“Current ED Servicer”)

Who do you repay?

You should know:
- Roles of lender/holder and loan servicer
  - You will be working with your loan SERVICER
- How to contact loan servicer
  - Phone number
  - Website
Who is your servicer?

Direct Loans initially are assigned to one of the following four ED servicers:

<table>
<thead>
<tr>
<th>Servicer</th>
<th>Website</th>
<th>Phone Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>FedLoan Servicing</td>
<td>myfedloan.org</td>
<td>(800) 699-2908</td>
</tr>
<tr>
<td>Great Lakes</td>
<td>mygreatlakes.org</td>
<td>(800) 236-4300</td>
</tr>
<tr>
<td>Nelnet</td>
<td>nelnet.com</td>
<td>(888) 486-4722</td>
</tr>
<tr>
<td>Sallie Mae</td>
<td>salliemae.com</td>
<td>(800) 722-1300</td>
</tr>
</tbody>
</table>

ED may transfer your Direct Loans to another servicer in the future—you will be notified!

Check “loan detail” screen on NSLDS.ed.gov to verify contact information for your loan servicer(s)

Loan Portfolio Chart

Sample Worksheet

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Interest Rate</th>
<th>Lender</th>
<th>Servicer</th>
<th>Amount Owed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Stafford</td>
<td>5.41%</td>
<td>U.S. Dept. of Education</td>
<td>(     )</td>
<td>$</td>
</tr>
<tr>
<td>Direct Grad PLUS</td>
<td>6.41%</td>
<td>U.S. Dept. of Education</td>
<td>(     )</td>
<td>$</td>
</tr>
</tbody>
</table>

Determine when repayment begins

Step 2

Determine when repayment begins
When does repayment begin?

Loans with GRACE PERIOD
- Stafford/Direct Sub and Unsub
  - 6 months after graduation
- Perkins
  - 9 months after graduation
- Private
  - Contact lender

Loans without GRACE PERIOD
- Grad PLUS
  - 6 months after graduation due to automatic 6-month post-enrollment deferment
- Consolidation
  - At graduation
- Prior loans where grace period has been used
  - At graduation

When repayment begins ... ... action is required!

You must:

- Start or resume repaying your loans
  - Pick your repayment plan
  - Pay on time

OR

Postpone repayment
- Deferred
- Forbearance

Repayment Timetable
Year 1 (Class of 2014)

<table>
<thead>
<tr>
<th>Loan</th>
<th>Degree</th>
<th>Grace Period</th>
<th>Payment Start Date</th>
<th>Action Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Stafford</td>
<td>Law</td>
<td>6 months</td>
<td>≈ 12/1/2014</td>
<td>Select payment plan near end of grace period</td>
</tr>
<tr>
<td>Direct Grad PLUS</td>
<td>Law</td>
<td>none</td>
<td>≈ 12/1/2014</td>
<td>Verify post enrollment deferment will be applied automatically after graduation</td>
</tr>
</tbody>
</table>
Step 3

Pick your repayment plan

Picking Your Plan

Suggested steps:
1. Understand your options
2. Estimate your budget
3. Define your goals
4. Evaluate possible tradeoffs
5. Leverage loan repayment flexibility
6. Pick your plan

Understanding Your Options
### Loan Repayment Options

#### Stafford, PLUS and Consolidation Loans

<table>
<thead>
<tr>
<th>Options</th>
<th>Payment Structure</th>
<th>Payment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>Fixed</td>
<td>10 years</td>
</tr>
<tr>
<td>Graduated</td>
<td>Tiered</td>
<td>10 years</td>
</tr>
<tr>
<td>Extended</td>
<td>Fixed or Tiered</td>
<td>25 years</td>
</tr>
</tbody>
</table>

#### Based on DEBT

- **Pay As You Earn (PAYE)** (Direct only)
  - Adjusted annually based on:
    - Household AGI
    - Household size
    - Poverty guideline
    - State of residence
  - 10% of annual "Discretionary Income"
  - 20 years*
  - Any debt remaining after 20 years is cancelled (amount cancelled taxable)

- **Income Based (IBR)**
  - Adjusted annually based on:
    - Household AGI
    - Household size
    - Poverty guideline
    - State of residence
  - 15% of annual "Discretionary Income"
  - 25 years**
  - Any debt remaining after 25 years is cancelled (amount cancelled taxable)

- **Income-Contingent (ICR)** (Direct only)
  - Adjusted annually based on:
    - Household AGI
    - Household size
    - Total amount of Direct Loans
    - Approx. 25% of discretionary income
  - 25 years**
  - Any debt remaining after 25 years is cancelled (amount cancelled taxable)

#### Based on INCOME

- **PAYE**
  - Adjusted annually based on:
    - Household AGI
    - Household size
    - Poverty guideline
    - State of residence
  - 10% of annual "Discretionary Income"
  - 20 years*
  - Any debt remaining after 20 years is cancelled (amount cancelled taxable)

- **Income Based (IBR)**
  - Adjusted annually based on:
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    - Household size
    - Total amount of Direct Loans
    - Approx. 25% of discretionary income
  - 25 years**
  - Any debt remaining after 25 years is cancelled (amount cancelled taxable)

#### PAYE Additional Eligibility Requirements

- Must be a "new borrower" on or after October 1, 2007 (10/1/2007)
- No federal loans before 10/1/2007, OR
- No outstanding balance on an existing federal student loan when you borrowed your first federal student loan on or after 10/1/2007
- Must have had a disbursement of a federal student loan on or after 10/1/2011

#### Estimate Your Monthly Payment

"Repayment Estimator" at: [StudentLoans.gov](http://StudentLoans.gov)

To "SIGN IN" enter:
- SSN
- First two letters of your last name
- Birthdate
- Dept. of Ed PIN

Duplicate PIN available at: PIN.ed.gov
Payment Comparisons
Federal Student Loan Debt = $130,000 (Weighted average interest rate = 6.90%)
Household AGI = $60,000 (Household Size = 1; State = CA)
(Estimates calculated using "Repayment Estimator" at: StudentLoans.gov)

![Initial Monthly Payment Graph]

Payment Comparisons
Federal Student Loan Debt = $130,000 (Weighted average interest rate = 6.90%)
Household AGI = $60,000 (Household Size = 1; State = CA)
(Estimates calculated using "Repayment Estimator" at: StudentLoans.gov)

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
<th>Monthly Payment Prior to Four-Points</th>
<th>Repayment Loan Balance ($)</th>
<th>Total Income</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>120 months</td>
<td>$1,352</td>
<td>$11,250</td>
<td>$151,281</td>
<td>$162,269</td>
</tr>
<tr>
<td>Graduated</td>
<td>120 months</td>
<td>$988</td>
<td>$63,803</td>
<td>$141,183</td>
<td>$152,565</td>
</tr>
<tr>
<td>Extended Graduated</td>
<td>240 months</td>
<td>$916</td>
<td>$11,250</td>
<td>$142,271</td>
<td>$153,557</td>
</tr>
<tr>
<td>Federal Forbearance</td>
<td>240 months</td>
<td>$916</td>
<td>$11,250</td>
<td>$142,271</td>
<td>$153,557</td>
</tr>
<tr>
<td>Pay As You Earn</td>
<td>240 months</td>
<td>$916</td>
<td>$11,250</td>
<td>$142,271</td>
<td>$153,557</td>
</tr>
<tr>
<td>Income-Based</td>
<td>360 months</td>
<td>$916</td>
<td>$11,250</td>
<td>$142,271</td>
<td>$153,557</td>
</tr>
<tr>
<td>Income-Contingent</td>
<td>360 months</td>
<td>$916</td>
<td>$11,250</td>
<td>$142,271</td>
<td>$153,557</td>
</tr>
</tbody>
</table>

*Assumes household AGI increases by 5% per year and federal poverty guideline increases by 3.3% per year

"Projected Loan Forgiveness" is taxable under current IRS rules

Choosing Your Plan

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When repaying Federal Direct Loans, *faster may not be better*

You may want to consider:
- Taking as long as possible to repay your Federal Direct Loans

Why?
- You may have better uses for your “extra” funds from an *opportunity cost* perspective

Opportunity Cost
- It’s about trade-offs
- You have scarce resources
  - Time
  - Money
- Ask yourself:
  - “If I did not “spend” my time/money on this now, what else could I use it for—and would that be better for me?”

Other Potential Uses
You must decide how to allocate your monthly income among four “buckets”...
The “Future” Bucket

Financial planners suggest you should “Pay Yourself FIRST” using at least 20% of your gross monthly income on...

- Saving for a “rainy day” – the emergency fund
  - Minimum of 6-9 months of your monthly living expenses
- Investing for retirement
  - Minimum of 10% of your gross monthly income
- Saving for their children’s education
  - Minimum needed uncertain—may need to start paying for children’s education much sooner than expected (e.g., elementary school)
- Saving for the down payment for a home
  - Minimum of 10% of purchase price

What should you do?

Consider:

- Choosing the repayment plan that offers the LOWEST scheduled monthly payment

Why?

- This provides maximum cash flow flexibility so that you can:
  - Maximize amount you are prepaying in a targeted way at your most expensive debt (e.g., Grad PLUS Loans)
  - AND/OR
  - Allocate “extra cash” for other expenses (e.g., FUTURE bucket)
Loan Prepayment

- You can make payments on your federal student loan(s) without penalty
  - Will reduce total interest paid on loan
- Contact the loan servicer before you make a prepayment
  - Ask what steps are needed to submit prepayments
  - Advise servicer you want to "prepay" the loan rather than "advance the due date"
  - Target prepayment at loan(s) with highest interest rate

Step 4

Evaluate if Federal Loan Consolidation is needed

Consolidation Can be confusing!

- Consolidation ≠ COMBINING loans
- Consolidation = REFINANCING loans
**Consolidation**

**A Refinancing Option**

- Borrowing a new loan
  - Federal Direct Consolidation Loan
- Only federal student loans are eligible
- Interest rate is fixed—but does not get you a “better deal”
  - Equals weighted average of interest rates of loans being consolidated then rounded up to nearest 1/8th percent
- Now apply online at: StudentLoans.gov
  - Loans must be in grace, repayment, deferment or forbearance
  - Can opt to delay funding of new loan until end of grace period
  - Can select loan servicer for new loan

**Reasons to Consolidate**

- Simplify repayment by reducing number of lenders/servicers
- Convert variable-rate Stafford Loans into fixed-rate Direct Consolidation Loan
- Convert FFEL loan(s) into Direct loan debt for Public Service Loan Forgiveness Program and PAYE eligibility
- Convert Perkins/HPSL/LDS loan(s) into Direct loan debt for Public Service Loan Forgiveness Program, IBR and PAYE eligibility
- Lengthen repayment period to reduce monthly payment on federal student loan debt
- Release endorser from Grad PLUS Loan
- Refinance Federal Direct Loans borrowed before 10/1/2007 so that the debt is now part of a Federal Direct Consolidation Loan that was disbursed after PSLF became available on 10/1/2007.

**Taking Charge**

**Final words ...**
Benefit for Public Service

Public Service Loan Forgiveness Program (PSLF)

PSLF
Key Points

- DIRECT Loans only
- Work full-time as a paid employee for an eligible public service organization for 10 years (120 months)
- Best to repay loans using PAYE or IBR
- For more information, go to: StudentAid.ed.gov/publicservice

When making decisions about loan repayment ...

Be strategic!

- Weigh the importance of reducing interest costs vs. ability to achieve your other financial goals more quickly
- Beware of risks
  - Uncertainty of future income
  - Uncertainty of future expenses
- Create your “Action Plan”
Direct Loan Payment tips ...

- You will receive a SINGLE, itemized monthly billing statement from the servicer listing all of your Federal Direct Loans in repayment so that you only need to submit one monthly payment for those loans.
- Payments can be made by:
  - Check or money order
  - Online payment
  - "Auto-Pay" program

  SAVE TIME AND MONEY – Sign up for "Auto-Pay" – The U.S. Department of Education currently offers to reduce the interest rate by 0.25% on the federal student loans it owns if the you sign up with your loan servicer to have your monthly loan payments automatically deducted from a checking or savings account.

For more information ...

- Contact your loan servicer(s)
- Refer to online resources, e.g.,
  - Federal student loan repayment: StudentAid.gov
  - Federal loan "Repayment Estimator": StudentLoans.gov
  - Federal Direct Consolidation Loans: StudentLoans.gov
  - Public service: StudentAid.ed.gov/publicservice
  - National Student Loan Data System: NSLDS.ed.gov
  - Federal Student Aid PIN: PIN.ed.gov
  - Free annual credit report: AnnualCreditReport.com

BE STRATEGIC WHEN REPAYING YOUR LOANS!