Student Loan Exit Workshop

Presented by:
Student Financial Aid Services
Student Union Building (SUB)
University of Idaho

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University of Idaho
A LEGACY OF LEADING

What We Will Cover

- Recent loan changes
- Loan terminology
- Loan types: federal & private
- Average UI loan indebtedness
- Managing repayment
- Deferment & forbearance
- Loan consolidation- Is it right for you?
- Repayment plans
- Options to prepay, shorten terms & change plans

What We Will Cover

- How to contact your loan servicer
- Your MPN, obligation to repay
- Default prevention and consequences
- Loan forgiveness/discharge
- FSA Ombudsman's Office
- Tax benefits for student borrowers
- Rights & Responsibilities
- Closing tips

Recent Loan Changes

- As of July 1, 2012: The federal government has discontinued the Subsidized Stafford loan for **graduate** students. These students can still borrow up to the same annual limit of $20,500 but the loan is the Unsubsidized Stafford loan ONLY.
- Both the Subsidized and Unsubsidized Stafford loans have a 6 month grace period before payment on principle is due, but interest continues to accrue through the grace period
    - Note: If you receive a Subsidized Stafford loan that is first disbursed between July 1, 2012, and July 1, 2014, you will be responsible for accrued interest during your grace period.
- As a result of sequestration, the origination fee on Stafford loans will also change from 1.051% to 1.072% after Dec. 1, 2013
- Also, the Graduate PLUS loan origination fee will change from 4.204% to 4.288 after December 1, 2013.

Loan Terminology

- **Loan**: is money borrowed from a lending institution or the Department of Education that must be repaid.
- **Grace Period**: a six month period after you graduate, leave school or drop below half-time enrollment in which you are not required to make monthly payments.
- **Master Promissory Note-** a binding legal document that you sign before receiving your student loans, indicating you agree to repay your loan/s in full (good for up to 10 years).
- **Lender**-the organization that made the loan initially. This could be a bank, credit union or the Department of Education.
- **Servicer**- the organization that handles billing and other loan functions for the lender.
- **NSLDS**- the Department of Education's central database that stores information on all loans and grants made through the federal student aid program.

Loan Types

- **Federal Government Loans:**

- Direct or FFEL Stafford Loans
  - Subsidized and Unsubsidized- these loans differ by who is paying the accrued interest. For the Unsubsidized loans, students are sent a statement that shows the amount that has accrued since the first disbursement. Students are encouraged to pay this as they go, so the principle balance on the loan will not increase when they go into repayment.

- PLUS Loans- for dependent and graduate students only:
  - Graduate or Parent- www.studentloans.ed.gov

- Perkins Loans- 5% rate, 9 month grace period

- **Private Loans-** Read the fine print, know your options.
  - Alaska Loans, Institutional Loans, Bank Loans

UI Average Indebtedness by Degree Level

- Undergraduate students: $26,809
- Graduate students: $33,295
- Law students: $96,795

Managing Repayment

- There are excellent resources to help with student loan repayment.
- www.studentloans.gov -under Managing Repayment you will find the following links:

Repaying Your Loans
Repayment Plans & Calculators
Trouble Making Payments?
Loan Discharge
Public Service Loan Forgiveness
Teacher Loan Forgiveness
Loan Servicers

Deferment

- **<u>Deferment</u>**- is a period in which repayment of the principle balance is temporarily postponed if you meet certain requirements. There are several types of deferments such as:
  - In school (enrolled at least halftime)
  - Unable to find full-time employment (for up to 3 years)
  - Economic hardship (including Peace Corps Service)
  - Study in an approved graduate fellowship program or rehabilitation training program for the disabled.
  - Member of the National Guard or other reserve component of the armed forces who is called to active duty.

Forbearance

If you have used all deferment options, you may want to consider:

Forbearance- If for any reason you do not qualify for deferment, a forbearance will allow postponement of payments as well. Interest will accrue on all loans in forbearance.

Loan Consolidation

- Do you have unpaid student loans prior to July 1, 2008? These are variable rate loans and will likely go up in the future. Consolidation locks your interest into a new, weighted average rate.
- You could save money having one payment as opposed to several
- Downsides? You may lose certain benefits if you consolidate (once the Perkins is consolidated-it can't be reversed)
- A consolidated Perkins loans are Unsubsidized in terms of interest accrual during deferment and/or forbearance periods
- Don't lose your grace period- consolidate 4-6 weeks prior to first payment due. Once you consolidate- payment is due within 60 days
- Start here: www.loanconsolidation.ed.gov
- Can apply for different repayment plans
- One servicer for the new consolidation loan

Repayment Plans

- Standard
  - 10 years, 120 payments
  - Default program
- Graduated
  - 10 years, 120 payments
  - Payments start low, increase as years progress
- Extended
  - Up to 25 years
  - Must have higher than $30k in student loan debt

Income-Driven Plans (3) - Overview

1. Income-Contingent Repayment Plan (ICR) – 1994
   Direct Loan Program only
   More information available at StudentAid.gov/ICR
2. Income-Based Repayment Plan (IBR) – 2009
   Available in both the Direct Loan and FFEL Program
   More information available at StudentAid.gov/IBR
3. Pay As You Earn Plan – 2012
   Direct Loan Program only
   For new borrowers in FY 2008 who receive new loans in FY 2012
   Modeled on IBR, incorporating statutory IBR changes scheduled to take effect for new borrowers in **2014**
   More information available at StudentAid.gov/PayAsYouEarn

Income-Driven Plans – Payment Amounts

Under ICR, borrowers pay the lesser of:

12-year standard repayment schedule multiplied by income percentage factor (payment based on loan debt and income) or

20% of discretionary income (payment based only on income)

Under IBR, borrowers pay the lesser of:

15% of discretionary income (income-based payments) or

What they would have paid under the 10-year standard repayment plan (non-income-based payments)

Under Pay As You Earn, borrowers pay the lesser of:

10% of discretionary income (income-based payments) or

What they would have paid under the 10-year standard repayment plan (non-income-based payments)

For more on understanding Repayment Plans visit:
http://studentaid.ed.gov/repay-loans/understand/plans

Repayment Plans

- Income Contingent/Income Based (ICR / IBR)
  - To qualify for IBR- borrower must show partial financial hardship
  - ICR- Interest capitalization limited to 10%
  - Monthly payments based on annual income, family size, and loan amount-(ICR)
  - Must apply and qualify
  - Annual reporting
  - Loans discharged after 25 years

Options to Prepay

- Students can prepay loans- attack highest rate loans first (PLUS, Unsubsidized)
- Can change repayment plans without charge
- Make larger payments early to shorten repayment terms and reduce total payout
- Stick with Standard Repayment plan if it is affordable (lowest total payout)

How to Contact Your Loan Servicer

• National Student Loan Data System (NSLDS) www.nslds.ed.gov – click on Financial Aid Review, then proceed until your loan history appears & click on loan number

•For more detailed information on your loan servicer, visit:
•http://studentaid.ed.gov/repay-loans/understand/servicers

* **Questions?** Call 1-800-848-0979 for assistance

Your Master Promissory Note and Obligations

Included in your Master Promissory Note:

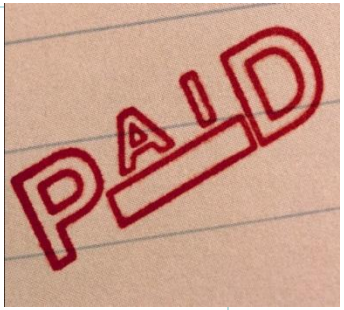
- Certification that the information provided was correct
- Authorization for the school to credit loan proceeds to your school account
- Promise to repay the amounts borrowed
- MPN details: disclosure of loan terms, loan cancellation, interest rate, loan fee, late charges, collection costs and grace period.

- To obtain a copy of your MPNs, go to: www.studentloans.gov, login and under “My Loan Documents” you can view and print completed MPNs.

Default Prevention and Consequences

- Keep your contact information current.
- Enroll in auto payment (save .25% on your rate).
- Once you are 270 days delinquent on payments- you default.
- Consequences of default:
  - Entire loan balance due in full immediately
  - You lose eligibility for benefits such as deferment
  - Balance owed immediately jumps approximately 25%
  - Wage garnishment
  - Seizure of tax returns
  - Damaged credit rating
  - May block professional licensure, employment through credit checks.

Forgiveness / Discharge



- Teacher
  - www.studentaid.ed.gov
  - www.aft.org
  - Must fulfill specific employment requirements
- Volunteer
  - http://www.nationalservice.gov/programs/americorps www.friendsofvista.org
  - www.peacecorps.gov
    - Deferments only, partial for Perkins
- Legal/Medical
  - www.equaljusticeworks.org
  - www.hrsa.gov
  - Typically revolves around public service

Forgiveness / Discharge

- Public Service Loan Forgiveness (PSLF)
  - Large umbrella (counties, fed/state, pub. schools)
  - 10 years, 120 payments
    - Any balance after 120th payment is forgiven
    - Must be in ICR or IBR repayment plan
  - Only eligible with Direct Loans
  - Keep track of employment records
  - Recertifying: need to provide income docs yearly
  - Application available at: www.studentaid.ed.gov

Income-Driven Plans- Loan Forgiveness

- All three plans provide for forgiveness
- For ICR and IBR, remaining balance forgiven after 25 years of qualifying repayment
- For Pay As You Earn, remaining balance forgiven after 20 years of qualifying repayment
- For all three plans, qualifying repayment includes:
    - Payments under an income-driven plan
    - Payments under the 10-year standard repayment plan (or any other repayment plan with a payment amount at least equal to the 10-year standard plan amount) or
    - Economic hardship deferment
- According to the IRS, the forgiven amount is considered taxable income

FSA Ombudsman Office

If you are unable to resolve federal loan issues through your loan servicer, the FSA Ombudsman Office is your next step.

Call 877-557-2575

Web: www.ombudsman.ed.gov

Help with: incorrect name, SSN, DOB, payment discrepancies, deferment or forbearance problems, consolidation errors, loan calculation errors, etc.

Tax Benefits

- Lifetime Learning Credit- up to $2000 in tax credits if you paid qualified expenses for education for yourself, another eligible student, spouse or dependent for whom you claim as an exemption on your tax return.

•Tuition and Fees Deduction: You may be able to deduct up to $4000 in qualified expenses with form 8917.

•You can take a tax deduction for the interest paid on student loans that you took out for yourself, your spouse, or your dependent. The maximum deduction is $2,500 a year.

•Need more? Go to: www.irs.gov/uac/Tax-Benefits-for-Education:-Information-Center

Rights

- Notification
  - Promissory Notes, repayment obligations, disclosure statement
- Grace Period
  - 6 months after Graduation (9 for Perkins)
- Deferment and Forbearance
- Change repayment plans
- Prepayment without penalty

Responsibilities

Repaying your loan

- On-time, monthly payments

- Notifying lender of any changes to:
  - Contact info, employment status, etc.
  - Your ability to make monthly payments

Keep them notified and they will help you will stay out of default

Closing Tips

- Read all loan correspondence you receive
- Monitor your loan servicer for updates
- Sign up for Electronic Funds Transfer
- Plan for payments
- Stay in contact with your loan servicer
- If you are not contacted by your loan servicer, initiate contact to avoid getting a “late” or delinquent mark on your credit rating

Thank You

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