

Strategies for Loan Repayment

May 19, 2015



The University of Chicago Booth School of Business

IMPORTANT NOTE

This session is NOT the federally mandated exit counseling for all federal student loan borrowers. Exit counseling provides more thorough information on loan repayment—plans, deferment and forbearance options, etc.

Topics

- Know Your Debt
- Know Your Timeline
- Know Your Options
- Make a Strategy

Know Your Debt

Find Your Loans and Servicers

- nslds.ed.gov
 - New FSA ID replacing the old PIN – fsaid.ed.gov
- Letters from servicers
- Online lender / servicer accounts
- Award letters

Keep in Touch

- Make a list of all loans and servicers
- Ensure servicers can contact you
 - Address
 - Email
 - Phone

Know Your Timeline

Grace Period

- Federal Loans
 - Direct Unsub and Grad PLUS: 6 months
 - Perkins: 9 months
- Private Loans: varies
- FAQS Loan: 9 months

Select Repayment Plan

- Federal Loans
 - Contact servicer 45 days before repayment
- Private Loans: varies (*you probably chose already?*)
- FAQs Loan: Chosen at time of application

Know Your Options

Federal Student Loan Repayment Plans

- Standard – 10 years
- Extended – 25 years
- Income-Based – pegged to income
 - IBR
 - PAYE
- studentaid.ed.gov has great details

IBR and PAYE details – studentaid.ed.gov

Income-Based Repayment Plan (IBR)	<ul style="list-style-type: none"> • Direct Subsidized and Unsubsidized Loans • Subsidized and Unsubsidized Federal Stafford Loans • all PLUS loans made to students • Consolidation Loans (Direct or FFEL) that do not include Direct or FFEL PLUS loans made to parents 	<ul style="list-style-type: none"> • Your maximum monthly payments will be 15 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence (other conditions apply). • Your payments change as your income changes. Up to 25 years 	<ul style="list-style-type: none"> • You must have a partial financial hardship. • Your monthly payments will be lower than payments under the 10-year standard plan. • You'll pay more for your loan over time than you would under the 10-year standard plan. • If you have not repaid your loan in full after making the equivalent of 25 years of qualifying monthly payments, any outstanding balance on your loan will be forgiven. • You may have to pay income tax on any amount that is forgiven.
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[Pay As You Earn Repayment Plan](#)

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| <ul style="list-style-type: none"> • Direct Subsidized and Unsubsidized Loans • Direct PLUS loans made to students • Direct Consolidation Loans that do not include (Direct or FFEL) PLUS loans made to parents | <ul style="list-style-type: none"> • Your maximum monthly payments will be 10 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence (other conditions apply). • Your payments change as your income changes.
Up to 20 years | <ul style="list-style-type: none"> • You must be a new borrower on or after Oct. 1, 2007, and must have received a disbursement of a Direct Loan on or after Oct. 1, 2011. • You must have a partial financial hardship. • Your monthly payments will be lower than payments under the 10-year standard plan. • You'll pay more for your loan over time than you would under the 10-year standard plan. • If you have not repaid your loan in full after you made the equivalent of 20 years of qualifying monthly payments, any outstanding balance on your loan will be forgiven. • You may have to pay income tax on any amount that is forgiven. |
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Income-Based Repayment Plan

- Eligibility – Partial Financial Hardship
- Documentation of income every year
- Public Service Loan Forgiveness eligible
- Payment is 15% of discretionary income
- Forgiveness after 25 years (taxable)

Pay As You Earn Repayment Plan

- Similarities to IBR
 - Eligibility – Partial Financial Hardship
 - Documentation of income every year
 - Public Service Loan Forgiveness eligible
- Differences from IBR
 - Payment is 10% of discretionary income
 - Forgiveness after 20 years (taxable)
 - Must be new borrower after 10/1/07
 - Must have DL disbursement after 10/1/11

Income-Based Plan Definitions

- Partial Financial Hardship
 - IBR/PAYE monthly payment < Standard Repayment amount
- Discretionary Income
 - All income over 150% of the poverty line

Note on ***New*** IBR

- The IBR plan for students who first borrowed after July 1, 2014, has terms equivalent to that of PAYE (10% of discretionary income instead of 15%)
- The name of the plan is identical to the old IBR
- This is not (that I know of) the plot of a newly-discovered Kafka novel
- Additional new income-based repayment plans are currently being debated
- Things are complicated, and may get more complex
- With election season ramping up, who knows???

Private Loan Repayment Plans

- Depends on terms of your loan
- Check with lender / servicer

Deferment / Forbearance

- Know your options
- Check with lender / servicer

Loan Repayment Calculators

- studentaid.ed.gov
 - <https://studentaid.ed.gov/repay-loans/understand/plans>
- Mapping Your Future
 - <http://mappingyourfuture.org/paying/standardcalculator.cfm>
- FinAid.org
 - <http://www.finaid.org/calculators/loanpayments.phtml>

Make a Strategy

Financial Priorities

- Emergency fund
- Retirement
- Home purchase
- Investing
- College fund
- General savings
- Travel, hobbies, gadgets, fancy stuff, etc
- Lifestyle inflation

Common Financial Priorities

- Let's look at a few scenarios
- There is no “right” strategy

Scenario 1:

No Worrisome Debt or Interest Rates, Confident in Market

1. 401k up to employer match
2. Emergency fund
3. Tax-advantaged retirement saving
(401k/Roth IRA)
4. Debt, including student loans
5. Targeted savings / investment
(home, college, etc)

Scenario 2: Worrisome / High Interest Debts

1. 401k up to employer match
2. Emergency fund
3. High interest debt
4. Tax-advantaged retirement saving
(401k/Roth IRA)
5. Targeted savings (home, college, etc)

The Most Useful Thing on Reddit

Emergency Fund

3-6 mo. expenses, liquid

Retirement Wrapper

Company 401k

Match employer contribution

Debt

Pay highest interest loans first

Roth IRA

Up to \$5,500

Traditional IRA

Up to \$5,500

combined
contribution
up to \$5,500

Company 401k

Up to \$18,000

Savings/Investments

e.g. I-bonds, index funds

Created by /u/BrainSturgeon, 2014

Make a Strategy

- Know your short and long term goals
- Know your desired quality of life
- For almost everyone, this is not purely a math problem

Different Goals People Have

- Maximizing investment returns
- The feeling of being debt free
- Early retirement
- Living at a certain lifestyle
- Freedom to change course / careers

Websites to Remember

- nslds.ed.gov
 - your federal loan history
- studentaid.ed.gov
 - repayment plans and calculator
- All of your servicers' websites!
- sla.uchicago.edu
 - if you have a UChicago Perkins loan

Questions?

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