PROMOTING HEALTHY CREDIT AWARENESS
EDUCATION DEBT MANAGEMENT

Vanderbilt University School of Medicine

Sonja McMullen
Sallie Mae

Updated: November 15, 2011
STUDENTS VALUE A COLLEGE EDUCATION

Considering the money and time involved in getting a college degree, do you think getting a college degree today is worth it?

Majority of enrolled undergraduates and parents strongly agree that, “College is an investment in the student’s future.” In 2011, student strong agreement rose to 90%.

Source: College Board (by Hart Research Associates): One Year Out, Findings from a National Survey Among Members of the High School Graduating Class of 2010

Source: Sallie Mae (with Ipsos Public Affairs); How America Pays for College, 2011
A College Education Continues to Have Value

Estimated Cumulative Earnings Net of Loan Repayment for Tuition and Fees, by Education Level

Sources: The College Board, *Education Pays 2010*, Figure 1.3; U.S. Census Bureau, 2009; The College Board, 2009; calculations by the authors.
UNDERSTANDING STUDENT LOAN REPAYMENT
KEY TIPS FOR MANAGING STUDENT LOANS

► Understand your student loan portfolio
  ▪ Know what types of loans you have
  ▪ Know your lenders and servicers
  ▪ Know how much you owe
  ▪ Know what your interest rate is
  ▪ Know what your total monthly payments will be
  ▪ Know what borrower benefits are available

► Understand the capitalization and its impact
► Know grace, deferment and forbearance options
► Know Federal Loan Repayment Plan options
► Avoid delinquency & default
► Keep good records
► Know resources
# Capitalization of Interest and Its Impact

Interest on most loans accrues from the date funds are disbursed until the loan is paid in full.

The chart provides estimates, for a $15,000 loan balance at a 6.8% interest rate, of the monthly payments due following a 12-month deferment or forbearance.

<table>
<thead>
<tr>
<th>Treatment of Interest Accrued During Deferment or Forbearance Status</th>
<th>Loan Amount</th>
<th>Capitalized Interest for 12 Months</th>
<th>Principal to Be Repaid</th>
<th>No of Payments</th>
<th>Monthly Payment</th>
<th>Total Amount Repaid*</th>
<th>Total Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest is paid as it accrues</td>
<td>$15,000</td>
<td>$0.00</td>
<td>$15,000.00</td>
<td>120</td>
<td>$172.62</td>
<td>$21,734.46</td>
<td>$6,734.46</td>
</tr>
<tr>
<td>Interest is capitalized at the end of status</td>
<td>$15,000</td>
<td>$1,020.00</td>
<td>$16,020.00</td>
<td>120</td>
<td>$184.36</td>
<td>$22,123.04</td>
<td>$7,123.04</td>
</tr>
<tr>
<td>Interest is capitalized quarterly during status and at the end of status</td>
<td>$15,000</td>
<td>$1,046.31</td>
<td>$16,046.31</td>
<td>120</td>
<td>$184.66</td>
<td>$22,159.37</td>
<td>$7,159.37</td>
</tr>
</tbody>
</table>

*Total amount repaid includes any capitalized interest.
UNDERSTANDING STUDENT LOAN REPAYMENT

Grace - period of time after a borrower graduates, leaves school or drops to less than half-time
- No payments required during this period
- Time varies based on loan type
- Does not adversely impact credit

Deferment - period when borrower who meets certain criteria may suspend loan payments
- In-School
- Economic Hardship
- Military
- Unemployment
- Graduate Fellowship

Forbearance – typically sought for temporary repayment relief and provides temporary adjustment of no payments or reduced payments
- Be careful to use because it adds expense
- But can be very useful to help avoid delinquency and default
FEDERAL LOAN REPAYMENT PLANS

Standard
- Level monthly payments that cover accruing interest and a portion of principal over a 10-year period
- Higher monthly payments
- **Lowest overall cost**

Graduated
- Payments start low, increase over time
- Interest only payments followed by standard principal & interest
- Finish in 10 years
- Higher overall – but good for early cash flow

Income Sensitive
- Payments are based on percentage of your monthly income
- Payments must be sufficient to cover accruing interest
- Finish in 10 years (may be extended to 15 years)
**Federal Loan Repayment Plans (Cont’d)**

**Income-Contingent (Direct Loans Only)**
- Payment is based on income
- Negative amortization is allowed
- Up to 25 years to repay
- Balance remaining after 25 years’ worth of payments can be forgiven

**Extended**
- Available to borrowers who have accumulated more than $30K in Federal Stafford, PLUS & Consolidation loans first disbursed on or after October 7, 1998
- Repayment can be extended up to 25 years
- Permits you to manage monthly cash flow needs, but will increase your cost

**Income Based Repayment**
- Available to federal loan borrowers experiencing financial hardship
- Borrower qualifies if annual monthly student loan payments exceed 15% of “discretionary income”
- If eligible for IBR, borrower’s monthly payment will be determined by a formula that takes into account household size and adjusted gross income. Increases in income will impact the required monthly payment amount
- Unpaid balance may be forgiven after 25 years of scheduled monthly payments
# Federal Loan Repayment Comparison

<table>
<thead>
<tr>
<th>Total Loan Amount</th>
<th>$150,000 in Loans *</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initial Monthly Payment</td>
</tr>
<tr>
<td>Standard</td>
<td>$1,726</td>
</tr>
<tr>
<td>Graduated (4 years interest-only)</td>
<td>$850</td>
</tr>
<tr>
<td>Extended (Standard)</td>
<td>$1,041</td>
</tr>
<tr>
<td><strong>Income-based repayment</strong>*</td>
<td><strong>$727</strong></td>
</tr>
<tr>
<td>Income-sensitive repayment</td>
<td>$850</td>
</tr>
<tr>
<td>Consolidation (Standard)</td>
<td>$985</td>
</tr>
</tbody>
</table>

Examples assume federal Stafford loans with the total loan amount due on the day repayment begins, 6.8% fixed interest rate on non-consolidated loans and 6.875% interest rate on consolidated loans, no borrower benefits or repayment incentives, no pre-payments and no delinquent payments. All payment calculations are estimates only. Monthly payment schedule and total payment estimates will vary. Note: Sallie Mae’s current repayment calculator estimates schedules for non-consolidated loans. This table provides consolidation schedule for fuller comparison of borrowers’ repayment options.

*Income-based repayment assumptions: Borrower is repaying $34,000 in subsidized Stafford loans and $116,000 in unsubsidized Stafford loans, all carrying a rate of 6.8%. In this scenario, the calculations assume a household size of 2, residence within the Continental U.S., an initial adjusted gross income (AGI) of $80,000, and a 5% annual increase in AGI. The example also assumes that borrower is married but spouse has no IBR-eligible loans. The borrower’s payment will rise each year until it reaches the maximum payment amount allowed, which, in this example, is $1,726—the monthly payment amount required to repay the balance of the loans at the time they are placed into IBR, in equal installments over a 10-year term. In this example, the borrower can expect to make 245 payments (approximately 20.5 years), totaling $307,959. In addition, the borrower can expect to qualify for a small interest subsidy of $658, during the early years of the loan. All payments are assumed to be made on time.
Public Service Loan Forgiveness (PSLF)

- Created to encourage individuals to work full-time in public service jobs

- Under the program, borrowers may qualify for forgiveness of the remaining balance due on a federal direct loan after they have made 120 payments on loans under the following repayment plans, while employed full time by certain public service employers:
  - Income-Based Repayment Plan (IBR)
  - Income Contingent Repayment Plan (ICR)
  - Standard Repayment Plan

- To receive any forgiveness under the PSLF Program it is likely that borrowers must make at least some of their loan payments under IBR or ICR
Delinquency & Defaults on student loans can adversely impact your credit history.

**DELINQUENCY**
- Failure to make payment(s) when due
- Reported to credit bureaus; affects borrowers history

**DEFAULT**
- Collection agencies may take over adding to cost
- Lender can take legal action
- School can withhold records
- Federal defaults could include wage garnishment & withholding of federal tax refunds
- Student loans are rarely discharged in bankruptcy
**TIPS ON REPAYING YOUR STUDENT LOANS**

- Remember that you can always **prepay** federal and private student loans without penalty
- **Never be late** for a payment or miss one entirely
- Be aware of the total cost and **pay more than the minimum** whenever you can on the higher interest rate loans
- Pay your bill as **early** as possible
- Take advantage of all borrower benefits available to you; which can mean **lowering your interest rate**
- Understand **deferment and forbearance** and use them wisely
**KEEP GOOD RECORDS**

- Get all loan documents together: keep them on file!
  - Promissory notes
  - Disclosure statements
  - Award Letters
  - Exit interview information
- Open and READ student loan mail
- Bookmark loan servicer’s websites
- Notify loan servicer(s) of name & address changes
- Document calls to servicer: date/time of call & person who handled the call
- Keep important numbers available
RESOURCES

- School financial aid office
- Lender/servicer
- Federal Student Aid Ombudsman
  
  **U.S. Department of Education – FSA Ombudsman**
  www.ombudsman.ed.gov or 1-877-557-2575

- Federal Loan Servicers:

  **Direct Loans**
  Phone: 800-848-0979
  Website: www.dl.ed.gov

  **Great Lakes**
  Phone: 800-236-4300
  Website: www.mygreatlakes.org

  **SallieMae**
  Phone: 800-722-1300
  Website: www.salliemae.com

  **Nelnet**
  Phone: 888-466-4722
  Website: www.nelnet.com

  **FedLoan**
  Phone: 800-699-2908
  Website: www.myfedloan.org
SUMMARY
10 Rules of Smart Credit Management

Credit plays an important role in managing your money – do not take on more than you can handle.

1. Live within your means
2. Know what you owe
3. Borrow only what you can afford
4. Maintain a good credit rating
5. Check your credit report annually
6. Use credit wisely
7. Recognize the warning signs of financial difficulty
8. Know a scam when you see one
9. Guard against identity theft
10. View bankruptcy as a last resort
QUESTIONS?
The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered or evaluated. Nothing in this presentation constitutes or is designed to constitute legal advice.