LOAN REPAYMENT STRATEGIES, DEBT MANAGEMENT AND FINANCIAL PLANNING

- ✓ Be Ready
- ✓ Develop Your Plan

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Jeffrey Hanson
Education Services

Mercer University School of Law

Managing Your Finances

1. Repay your student loans strategically.
2. Develop a manageable budget plan.
3. Plan for your future financially.

What do you consider when making financial decisions?

When making any financial decision, your financial objectives likely include:

- Making the best use of every dollar
- Minimizing your exposure to financial risk
- Successfully repaying your debt
- Planning financially for the future

These objectives should guide your decisions when planning how you: (1) pay for school, (2) prepare for your financial future, and (3) repay any debt including student loans, i.e., your "educational mortgage!"

Essentially, you've financed an important investment in yourself

You can be successful …

- In repaying this educational "mortgage"
- Without having to sacrifice your career aspirations or the achievement of your other financial and personal goals

But, you must make **smart**, **strategic**, and **well-informed** decisions about how you plan for and manage repayment of your federal student loans!

You have CHOICES

Decisions to be made in repayment …

- Should you refinance your existing federal student loans with a private loan if you can get a lower interest rate?
- Should you consolidate your existing federal student loans in the Federal Consolidation Loan program?
- What repayment plan should you choose to repay your federal student loans?
- Should you pay off your federal student loans as fast as possible?

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Normally with debt …

… you're in harm's way and can feel ***"boxed into a corner"*** financially!

Why are you in harm's way and boxed into that "corner"?

- Because payments on debt typically are locked-in/fixed at the time you borrow the money and based on the amount you owe—your **DEBT**—***not on your ability to repay that debt.***

As such, DEBT puts you at RISK and LIMITS your options, financially.

- Puts you at **RISK** of having to miss the payment due to loss of income or an unexpected expense.
- **LIMITS** your ability to pursue the job you want, invest for retirement, buy a house, etc.

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With federal student loans…

… you don't need to be
"boxed" *into that corner!*

Federal student loans offer …

Choice

Flexibility

Safety

How are federal student loans different?

The IMPORTANT difference – availability of the Income-Driven Repayment (IDR) plans:

- Payments can be based on your **income** rather than on the **amount of your debt**
  - Scheduled monthly payments can be equal to less than **10%** of your **household's monthly gross income** – therefore, you could have more than **90%** of your household's monthly gross income left over for everything else under the newest of the Income-Driven Repayment (IDR) plans!

*As such, federal student loans need not "**box you into a corner financially**" – they provide **financial safeguards** that greatly reduce/minimize the **RISK** and **FINANCIAL BARRIERS** you normally associate with having debt!*

Federal student loans also provide …

- Postpone repayment temporarily using:
  - **Deferment** – *(e.g., "In-School Deferment" and automatic "Grad PLUS 6-Month Post Enrollment Deferment" after graduation)*
  - **Forbearance** – *(e.g., "Alignment Forbearance" after graduation)*
- Forgiveness on portion of unpaid debt
  - **Income-Driven Repayment (IDR) plans** – Balance forgiven after 20-25 years of qualifying IDR payments
  - **Public Service Loan Forgiveness** (PSLF) – Balance on Direct Loans forgiven after 120 months of qualifying public service

Making informed decisions …

… also requires understanding the total ***"cost"*** *of debt*

Debt always has two (2) costs …

- **Direct Cost**
  - Interest
  - Fees
- **Opportunity Cost**
  - Value of what you are forgoing to repay the debt
  - ***In essence, the interest you are losing***

Another factor to consider …

Simple vs. Compounding Interest

- **Simple interest**
  - Increases in a **LINEAR** manner over time because it is not being “capitalized” *(not being added to the principal balance)*
  - Interest generally accrues on your federal student loans as “**SIMPLE**” interest both during school and in repayment
- **Compound interest**
  - Increases **EXPONENTIALLY** over time because it is being being capitalized (added to the principal balance)
  - Interest is compounding (perhaps as often as daily) on your INVESTMENTS and so your money is GROWING exponentially!

As such, you could end up with more money (not less) by investing your extra funds rather than paying off your federal loans faster!

So what should you do …

… *when* ***"mapping your course"***
for loan repayment?

Should you refinance with a private loan?

You have the right to do so, BUT:

- You will lose the **choice**, **flexibility** and **safety** provided by federal student loans including the **income-driven repayment options**.

- You may lower the **direct cost**, but likely will increase the **opportunity cost** *(likely will have to repay the private loan faster, and therefore, have a higher monthly payment to qualify for the lower interest rate).*

As such, you may be giving up more than you are gaining if you borrow a private loan – so exercise caution – be fully informed – investigate ALL the differences – don't focus solely on the interest rate!

What repayment plan should you choose?

Be strategic, consider:

- Choosing the repayment plan that offers the ***LOWEST*** scheduled monthly payment – *you can always pay extra (you also can change plans if your circumstances change)*

Why?

- This provides ***maximum cash flow flexibility*** so you can:
  - Maximize amount you are prepaying in a targeted way at your most expensive debt (e.g., credit cards, private student loans)

AND/OR

  - Allocate "extra cash" for other purposes (e.g., investing/savings)

Should you pay off your federal loans as fast as possible?

You have the right to do so—there are no prepayment penalties.

- But faster may not be better when repaying your federal student loans.

You may want to consider:

- Taking longer to repay your Federal Student Loans.

Why?

- You may have better uses for your "extra" funds in terms of **"opportunity cost."**

How will you use your money?

You must decide how to allocate your money across four ***"buckets"*** **...**

The "Future" Bucket …

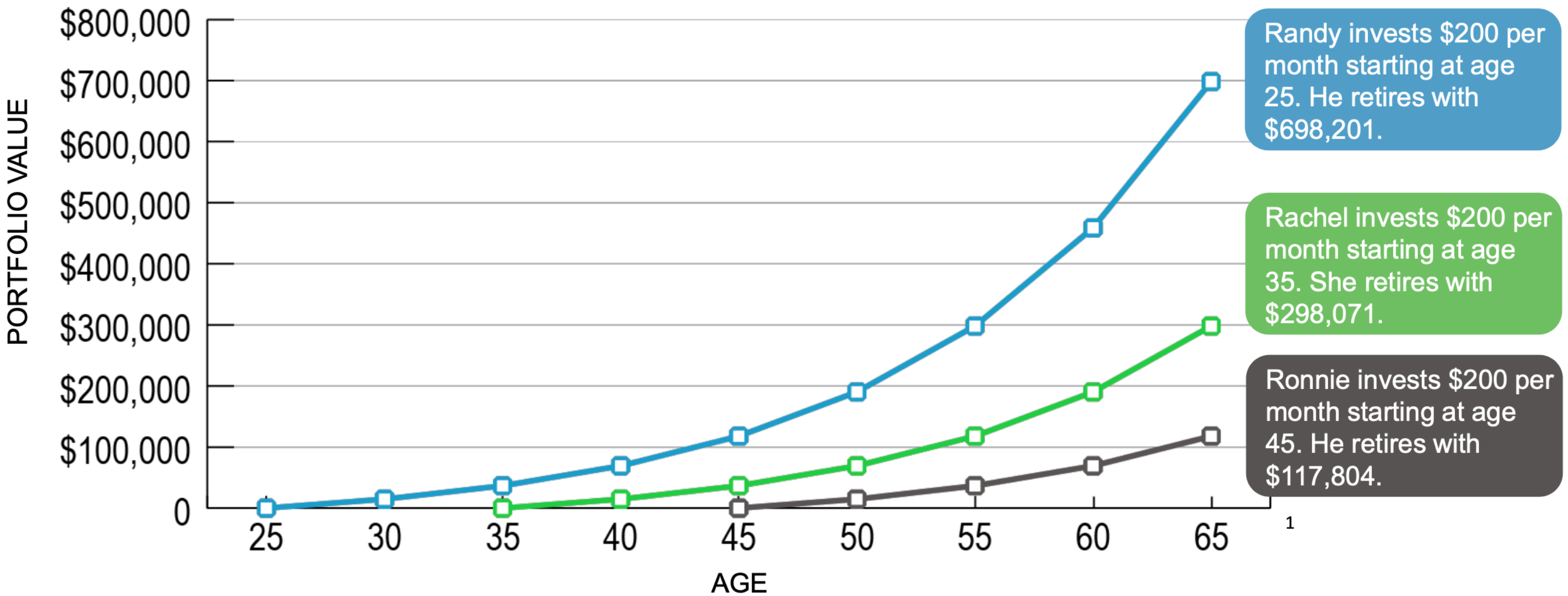
A ***"bucket"*** *you cannot afford to ignore!*

*Financial planners suggest you should "**Pay Yourself FIRST**" using at least **20%** of your gross monthly income on …*

- Investing for **retirement**
  - Minimum of 10% of your gross monthly income
- Saving for a "rainy day" – the **emergency fund**
  - Minimum of 6-9 months of your monthly living expenses
- Saving for the down payment/closing costs for a **home**
  - Minimum of 10% of purchase price
- 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)*

Timing matters when earning compounding interest!

Why it doesn't pay to wait.



1. Assuming an 8% annual return, compounded monthly. Results are hypothetical and do not represent the performance of any actual investment. They do not reflect fees, expenses, or taxes. For illustrative purposes only.

Paying off your federal student loans faster ...

- **Reduces the Direct Cost** by lowering total interest expense on the debt

BUT it simultaneously

- **Increases the Opportunity Cost** because it diverts more of your current income from investing/saving in the "**FUTURE** bucket"

*Therefore, when repaying your federal student loans, you need to evaluate this tradeoff between the **DIRECT** and **OPPORTUNITY** costs as well as the difference in **SIMPLE** vs. **COMPOUNDING** interest so that you make an informed decision that meets all your financial needs!*

Repayment Plans

Plans fall into two (2) categories

(Subsidized, Unsubsidized, PLUS, Consolidation Loans)

Fixed Payment Installment Plans	**Income-Driven Repayment (IDR) Plans**
Payments based on LOAN BALANCE	***Payments based on INCOME***
Plans - Standard - Graduated - Extended *(fixed)* - Extended *(graduated)*	Plans - Revised Pay As You Earn (REPAYE) - Pay As You Earn (PAYE) - Income-Based Repayment (IBR) – *2 options* - Income-Contingent Repayment (ICR)

Fixed Payment Installment Plans

Payments Based on ***LOAN BALANCE***

Plans	Payment Structure	Term
Standard *(default plan)*	Fixed payments *(do not change)*	10 years* *(up to 30 years on Consolidation Loans)*
Graduated	Payments increase in graduated steps every 2 years	10 years* *(up to 30 years on Consolidation Loans)*
Extended** *(fixed)*	Fixed payments *(do not change)*	25 years
Extended** *(graduated)*	Payments increase in graduated steps every 2 years ***Interest-only payments for first 2 years***	25 years

- Payments are based on an "**amortization schedule**"—
  must fully repay all the debt in the maximum repayment term of the loan
- Monthly payment must at least equal the accrued interest each month—
  *"**negative amortization**" is NOT permitted in these plans*

*** Must have more than $30,000 in Direct/FFEL Loans to use **EXTENDED** plans to repay Direct/FFEL Loans*

Income-Driven Repayment (IDR)
Payments Based on INCOME

- Payments are based on a percentage of your household's "**DISCRETIONARY**" income, i.e., that portion of your household's **Adjusted Gross Income** (AGI) that exceeds **150%** or **225%** of the **federal poverty guideline** for your **family size** and **state of residence**

  - **Household AGI** always includes your income; and if you are married it also includes your spouse's income if you file a **JOINT** federal tax return *(excludes spouse's income if you file separate federal tax returns in the Amended REPAYE/PAYE/IBR plans)*

  - **Family size** includes you, your spouse if married (if you file taxes jointly), your dependent children and any other dependents

- Payments are adjusted every 12 months based on how your AGI and family size change and can be less than the accrued interest each month ("**negative amortization**" is permitted)

IDR Plans

Payments Based on AGI & Poverty Guidelines

Plans	% of Disc. Income	Poverty Guideline Threshold	New Borrower	PFH Required	Forgiveness *(taxable benefit)*	Subsidy
Amended ***REPAYE***[1] *(available by late 2024)*	*5% UG* *10% Grad*	*225%*	*NO*	*NO*	*10 yrs (<$12,001)* *Up to 25 yrs* *(>$12,000)*	*All loans* *(No time limit)*
REPAYE[1]	10%	150%	NO	NO	20 yrs *UG only* 25 yrs *UG/Grad*	All loans *(No time limit)*
IBR	10% *New IBR* 15%	150%	YES *(as of 7/1/2014) for New IBR*	YES *(payment capped)*	20 yrs *New IBR* 25 yrs	Subsidized loans only *(up to 3 yrs)*
PAYE[1, 2]	10%	150%	YES *(as of 10/1/2007)*	YES *(payment capped)*	20 yrs	Subsidized loans only *(up to 3 yrs)*
ICR[1, 3]	20%	100%	NO	NO	25 yrs	NO

[1]Only Federal DIRECT Loans are eligible for this plan (FFEL loans must be consolidated to be eligible for REPAYE, PAYE and ICR)
[2]PAYE will be phased out for most borrowers (only borrowers already on the PAYE plan will be allowed to continue using that plan) once the new IDR regulations are published.
[3]ICR will be phased out for most borrowers (only borrowers already on the ICR plan or those who have a Direct Consolidation Loan that included the consolidation of Parent PLUS) will be allowed to continue using ICR once the new IDR regulations are published.

Interest Subsidy

*Subsidy during "**negative amortization**"*

Plans	**Subsidized Loans** ***Direct Subsidized***	**Unsubsidized Loans** ***Direct Unsubsidized*** ***Direct Grad PLUS***
***REPAYE** (as amended)* *(should be available by late 2024)*	*100% of negative amortization* ***No negative amortization***	*100% of negative amortization* ***No negative amortization***
REPAYE	100% of negative amortization during first 3 years in plan; 50% thereafter	50% of negative amortization all years in plan
IBR	100% of negative amortization during first 3 years in plan; none thereafter	NONE
PAYE[1]	100% of negative amortization during first 3 years in plan; none thereafter	NONE
ICR[2]	NONE	NONE

[1]PAYE will be phased out for most borrowers (only borrowers already on the PAYE plan will be allowed to continue using that plan) once the new IDR regulations are published.

[2]ICR will be phased out for most borrowers (only borrowers already on the ICR plan or those who have a Direct Consolidation Loan that included the consolidation of Parent PLUS) will be allowed to continue using ICR once the new IDR regulations are published.

Monthly Payment Estimates

EXTENDED GRADUATED plan vs. REPAYE *(* as amended)*

Federal Loan Debt = $100,000 (all Graduate level loans) *(Assumed interest rate = 6.0%)*

2022 Household AGI = see below *(Household Size = 1; State = 48 States; 2023 Poverty Guidelines)*

Item	2022 AGI < $21,870 *$21,870 (150%)* *$32,805 (225%*)*	2024 AGI = $65,000 *$32,805 (225%*)*
EXTENDED GRADUATED *Interest-only payments for first 2 years*	**$500**	
REPAYE *(150%/225%*) monthly payment*	**$0** **$0**	**$268**
Negative amortization *(unpaid interest)*	**$500** **$500**	**$232**
REPAYE 50%/100%* subsidy of negative amortization *(unpaid interest)*	**$250** **$500**	**$232**
REPAYE Annual subsidy	**$3,000** **$6,000**	**$2,784**

No subsidy provided once AGI exceeds approx. **$93,000** *in these examples*—**Amended REPAYE*** *monthly payment would exceed accrued interest of* **$500**

Doing the math!

How much will you have to pay each month?

"Loan Simulator"

- Provides estimates of monthly federal student loan payments at the **START** of repayment based on the data provided.

- Purpose of tool is to suggest the repayment plan you should use given your repayment goal(s) assuming you will not pay extra or change plans

NOTES OF CAUTION:

  - Tool does not account for changing repayment plans during repayment.

  - Tool does not account for paying extra amounts (prepaying) during repayment.

  - Tool does not account for the time value of money (i.e., inflation), "opportunity cost," or your other financial planning needs when providing "total paid" estimates.

Sample INITIAL Monthly Payments*

Amended REPAYE (10% of Discretionary Income) vs. STANDARD (10-year, fixed payment plan)

Amended REPAYE 10% of "Discretionary Income" using 225% Poverty Guideline threshold				**STANDARD** [10-year, fixed payment, 6.0% int. rate]	
AGI	HH Size = 1	HH Size = 2	HH Size = 3	**TOTAL LOAN DEBT**	Payment
$0	$0	$0	$0	$25,000	$278
$25,000	$0	$0	$0	$50,000	$555
$50,000	$143	$47	$0	$75,000	$833
$75,000	$352	$255	$159	$100,000	$1,110
$100,000	$560	$464	$367	$125,000	$1,388
$125,000	$768	$672	$576	$150,000	$1,665
$150,000	$977	$880	$784	$175,000	$1,943
$175,000	$1,185	$1,089	$992	$200,000	$2,220
$200,000	$1,393	$1,297	$1,201	$225,000	$2,498
$225,000	$1,602	$1,505	$1,409	$250,000	$2,776
$250,000	$1,810	$1,714	$1,617	$275,000	$3,053

*REPAYE monthly payment estimates based on 2023 federal poverty guideline for 48 states *(using 225% Poverty Guideline Threshold)*

Obtaining Payment Estimates

You can always contact your loan servicer to obtain monthly payment estimates for each payment plan once your loans are approaching the start of active repayment or already in repayment.

Taking Charge

Develop Your Loan Repayment Plan

Develop Your “Action Plan”

4 Steps

1. Take stock of your loan portfolio
   - Review loan summary/details at: ***StudentAid.gov***
2. Determine when repayment begins
3. Choose your repayment plan
4. Evaluate if “**Consolidation**” is beneficial

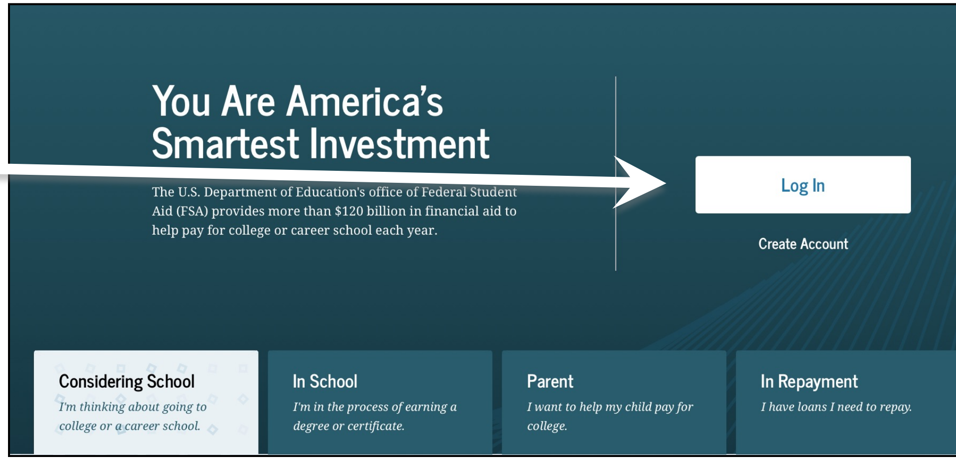
Remember, you must repay all that you owe!

StudentAid.gov

Loan Summary and Details

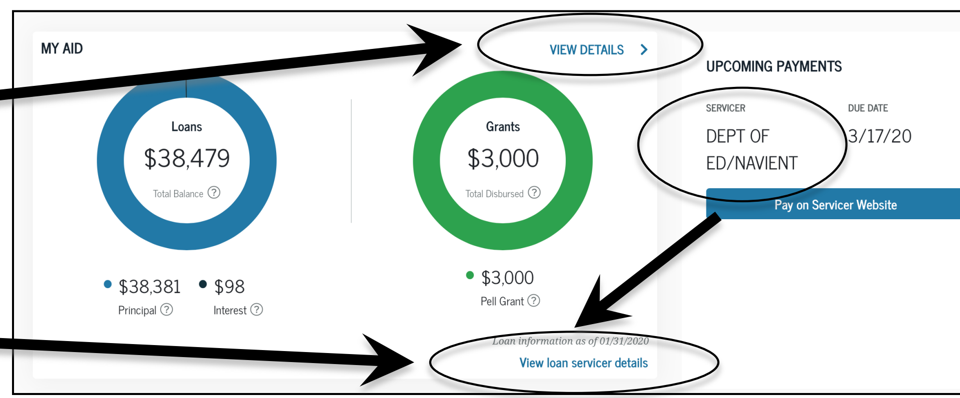
Login using your **FSA ID** to view your DASHBOARD:

- Username
- Password



Once logged into your DASHBOARD, select the **"View Details"** link to view a summary and details of your federal student loans regulated by U.S. Department of Education. Loan servicer details also appear here.

(LDS/PCL regulated by HHS do not appear here.)



Loan Servicer
Federal Direct Loans

- Direct Loans currently are "serviced" by the following private contractors *(March 2023)*:

Aidvantage *(formerly Navient)* *Aidvantage.com* *(800) 722-1300*	**MOHELA** *(also manages PSLF)* *Mohela.com* *(888) 866-4352*
Great Lakes* *Mygreatlakes.org* *(800) 236-4300*	**Nelnet** *Nelnet.com* *(888) 486-4722*
HESC/Edfinancial *Edfinancial.com* *(800) 236-4300*	**OSLA Servicing** *Public.osla.org* *(866-264-9762*

- Check your "dashboard" at: ***StudentAid.gov*** to verify contact information for the loan servicer for each of your federal loans.
- ED can change how your Direct Loans are serviced—***you will be notified whenever changes occur.***

** Loans currently serviced by Great Lakes are scheduled to be transferred to NELNET in Spring 2023.*

Fees and Interest Rates

Federal Direct Loans

Interest Rates	Direct Unsubsidized Loan	Direct Grad Plus Loan
2020-2021	4.30%	5.30%
2021-2022	5.28%	6.28%
2022-2023	6.54%	7.54%

Rate Structure	*Variable rate that becomes* ***FIXED***	
Rate Formula	*"High yield on 10-year Treasury note" +* ***SPREAD/MARGIN***	
Spread/Margin	*3.6%*	*4.6%*
Maximum Rate	*9.50%*	*10.50%*

When does repayment begin?

(Subsidized, Unsubsidized, Grad PLUS, Consolidation Loans)

Loans with GRACE PERIOD	Loans without GRACE PERIOD
Subsidized and Unsubsidized - *6 months after graduation*	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*

Picking Your Payment Plan

(Subsidized, Unsubsidized, Grad PLUS, Consolidation Loans)

- **Why?**
  - Your loans will remain on the **Standard (10-year fixed) Plan** if you fail to notify servicer of desired plan
- **When?**
  - 45-60 days prior to start of active repayment – *your loan servicer should contact you to confirm what plan you want to use*
- **How?**
  - Follow directions provided by your loan servicer
    - You will need to apply online for the **Income-Driven Repayment (IDR) plan** you want to use
    - IDR application is available online from the **"In Repayment"** checklist on your DASHBOARD at: ***StudentAid.gov***
- **What if you need to change plans?**
  - Contact your loan servicer

Should you "**consolidate**" your federal student loans?

- **Consolidation** is the ***refinancing*** of federal student loan debt—not the ***combining*** of debt—you are borrowing a ***new*** **Federal Direct Consolidation Loan**

- May be helpful – particularly if you have **non-DIRECT** federal student loans (e.g., Perkins, LDS) – not likely necessary if you only have **DIRECT** Loans *(cannot consolidate PCL or private loans)*

- All **federal** student loans are eligible

- Does **NOT** lower the cost of the debt
  - Interest rate is **fixed**--equals weighted average of interest rates of loans being consolidated, then it is **rounded up to nearest 1/8th percent**

- Apply for the new loan online at: ***StudentAid.gov/consolidation***

Benefit for Public Service

Public Service Loan Forgiveness Program (PSLF)

What is PSLF?

Public Service Loan Forgiveness (PSLF) is a repayment benefit that provides:

- forgiveness of any outstanding balance on a **Federal Direct Loan**
- once you complete 120 months (10 years) of "**qualifying public service**"
- while in **repayment** on that Direct Loan

What constitutes a month of "qualifying public service?"

You must satisfy following three (3) conditions during the month for that month to count toward PSLF benefit:

1. Must be repaying **qualifying** loans – only **DIRECT** loans (e.g., Direct Unsubsidized, Direct Grad PLUS) are eligible for PSLF.

2. Must be a paid employee *(generally, not a contractor or volunteer)* of a **qualifying** public service organization (i.e., government agency, private non-profit) during the entire month averaging at least 30 hours per week.

3. Must make an on-time "scheduled" **qualifying** payment *(using any IDR plan)* on your DIRECT Loans.

Refer to: ***StudentAid.gov/PSLF;*** use **"PSLF Help Tool"** at: ***StudentAid.gov/PSLF*** for more information about PSLF.

Track Your Eligibility for PSLF

Employment Certification – "PSLF Form"

- Complete the ***"Public Service Loan Forgiveness (PSLF) & Temporary Expanded PSLF (TEPSLF) Certification & Application"*** **(PSLF Form)** annually AND whenever you change employers.

- **PSLF Form** is available online using the **"PSLF Help Tool"** at: ***StudentAid.gov/PSLF.***

- Submit completed/signed form as instructed.

- **PSLF Form** will be processed, then you will be advised as to how many months you have earned toward PSLF based on the information
  - Voluntarily submitting the form allows you to:
    1. Inform U.S. Department of Education (ED) that you hope to take advantage of PSLF (quasi-enrollment process)
    2. Track your progress toward earning the PSLF benefit
    3. Provide documentation that you have been doing qualifying public service during the time period specified on the certification form when the time comes to apply for the PSLF benefit.

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Be strategic in repayment …

… leverage the unique nature of federal student loans!

When making decisions about student loan repayment …

Consider a balanced approach …

- Weigh the importance of minimizing the interest cost of your loans with your need to save/invest for the future
- Beware of financial risks
  - **Uncertainty of your future income**
  - **Uncertainty of your future expenses**
- Leverage the **flexibility**, **choice** and **safety** provided with federal student loans so you successfully:
  - **Repay your debt**
  - **Achieve your other financial goals more quickly**

Direct Loan payment tips …

- **SINGLE statement billing**
  - You should receive a "combined/itemized/consolidated" monthly bill and have one monthly payment for your DIRECT Loans
- **Payments can be made using:**
  - Check or money order
  - Online electronic payment at loan servicer's website
  - "**Auto-Pay**" *(contact your loan servicer to apply)*
    - Saves time – payments are automatically deducted from your checking/savings account on the due date
    - Saves money -- ***interest rate reduced by 0.25%***
- **No penalty for prepayments**
  - Prepayments can be targeted at a specific loan; but must be applied to accrued interest before principal
  - Contact your loan servicer **before** you prepay for instructions
  - Target prepayment amount at loan(s) with highest interest rate

Payment relief is available!

Important "safety nets"

You should never have to miss a payment (or default) on a federal student loan – payment relief should be available to you – but you must ask for the help …

- Postpone repayment temporarily using:
  - **Deferment –** *(e.g., "In-School Deferment" and automatic "Grad PLUS 6-Month Post Enrollment Deferment" after graduation)*
  - **Forbearance** – *(e.g., "Alignment Forbearance" after graduation)*
- Adjust your monthly payment:
  - Income-Driven Repayment (IDR) plans may provide opportunity to reduce monthly payment when income decreases

Contact your loan servicer for more information, and to request payment relief, if needed!

The CARES Act
Student Loan Provisions

For all federal student loans owned by the U.S. Department of Education (includes all DIRECT LOANS) the following two provisions apply until 60 days after 6/30/23 or 60 days after the Supreme Court rules on the debt cancellation lawsuits—whichever comes first.

- Interest is waived
  - Interest will resume accruing at the underlying fixed rates that were in effect when the loans were first disbursed.
- Loans in active repayment have been placed on the COVID-19 EMERGENCY FORBEARANCE suspending payments
  - These months will count as qualifying months toward all forgiveness benefits including Public Service Loan Forgiveness (PSLF).
  - Payments will resume using the payment plan that was being used at the time the forbearance began in March 2020.

For updates on the federal government's response to the COVID-19 pandemic regarding student loans, go to: ***StudentAid.gov/coronavirus***

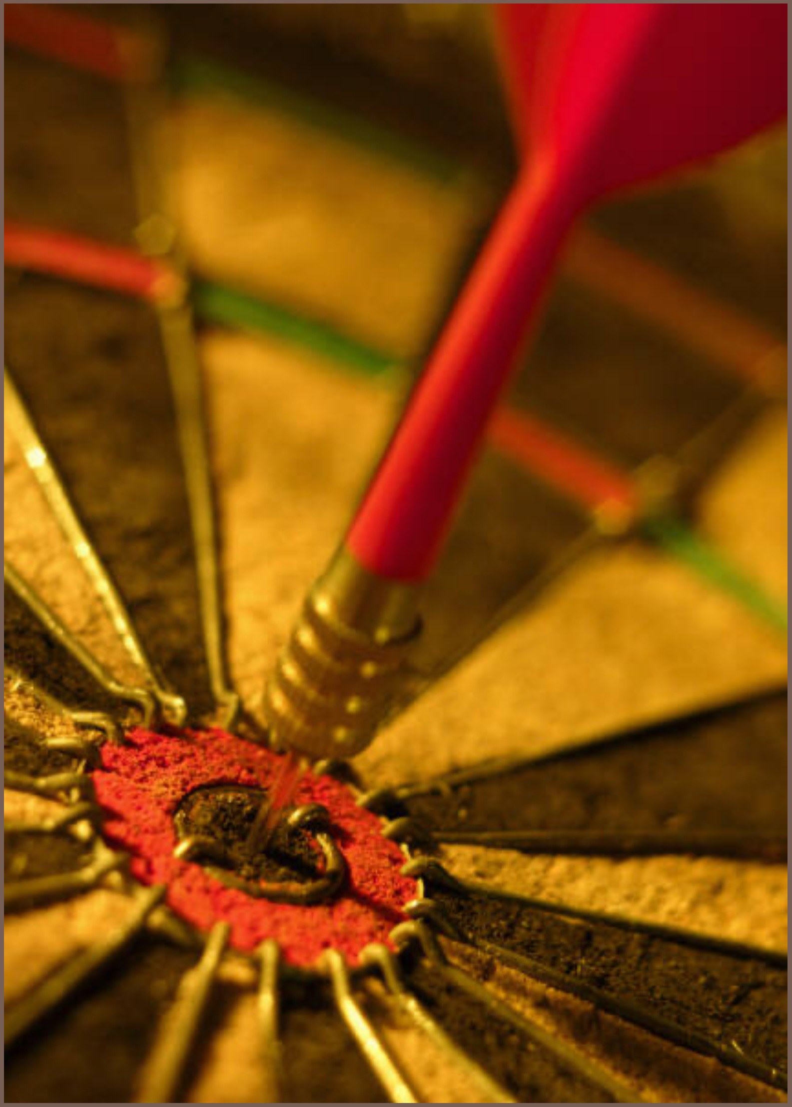
For more information …

- Contact the Law School Admissions and Financial Aid Office
- Contact your loan servicer(s)
- Online resources:
  - Federal student loan repayment: ***StudentAid.gov***
  - Federal student loan summary/details: ***StudentAid.gov***
  - "Loan Simulator": ***StudentAid.gov***
  - Federal Direct Consolidation Loans: ***StudentAid.gov/consolidation***
  - Income-Driven Repayment (IDR) Plans: ***StudentAid.gov***
  - **Public Service Loan Forgiveness Program (PSLF):**
    - **"PSLF Help Tool"** online at: ***StudentAid.gov/PSLF***
    - Added information/FAQs online at: ***StudentAid.gov/PSLF***
  - Free annual credit report: ***AnnualCreditReport.com***

BE STRATEGIC:

Get on Target —

Take Charge of Your Financial Future and Loan Repayment!



Jeffrey Hanson
Education Services

Mercer University School of Law