



# LOAN REPAYMENT STRATEGIES

**Be Ready!  
Develop a Plan!**

*Spring 2017*

# Questions you need to answer; decisions to be made ...

2

- ❑ Should you pay the interest on your loans as it is accruing in school?
- ❑ Should you refinance your federal loans with a private loan to get a lower interest rate?
- ❑ Should you consolidate your federal loans in the Federal Consolidation Loan program?
- ❑ What payment plan should you choose to repay your federal student loans?
- ❑ Should you pay off your federal student loans as fast as possible?

# Majority of law students ...

3



**... now graduate with an  
EDUCATIONAL MORTGAGE**

# Essentially, you've financed an important investment in yourself

4

## ***You can be successful ...***

- ❑ In repaying this “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!



5

Normally with debt ...

*... you're "boxed into a corner"  
from a financial perspective!*

# Why are you in that “corner”?

6

- ❑ Because payments are based on the amount you owe—your DEBT—not on your ability to repay that debt
- ❑ Your monthly payment is equal to the amount required to pay off all the debt (plus interest) in a given period of time

***You must make that payment each and every month whether you can afford it or not!***

# Debt puts you at risk and limits your options, financially

7

***In other words, it “boxes you into a corner”***

- ❑ Puts you at risk of having to miss the payment (e.g., *due to loss of income or unexpected expense*)
  - ❑ ***Missing the payment will damage your credit!***
- ❑ Impacts your ability to make other choices financially (e.g., *changing jobs or taking time off, investing for retirement, buying a house*)
  - ❑ ***The more you owe, the more you must pay each month on your debt leaving less money for other purposes!***



8

With federal student loans...

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



Federal student loans offer ...

9

Choice

Flexibility

Safety

# How are federal student loans different?

10

## ***The IMPORTANT difference:***

- ❑ Payments can be based on your income rather than on the amount of your debt
  - ❑ Payments can be equal to **10%** of your household's discretionary income – and that means you could have **90%** of your household's income for everything else!

**As such, federal student loans need not “box you into a corner financially” – you have options!**



11

Making informed decisions ...

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

# Debt always has two (2) costs ...

12

## □ Direct Cost

- Interest
- Fees

## □ Opportunity Cost

- Value of what you are forgoing to repay the debt

# “Opportunity Cost”

13

- ❑ It's about trade-offs
- ❑ You have alternatives when you use your scarce resources
  - ❑ *Time*
  - ❑ *Money*
- ❑ Ask yourself:
  - ❑ *“Am I putting my time/my money to its ‘highest’ and ‘best’ use?”*

# Another factor to consider ...

## ***Simple vs. Compounding Interest***

14

### ❑ 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 during 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!



15

So what should you do ...

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

# Remember, you have decisions to be make ...

16

- ❑ Should you pay the interest on your loans as it is accruing in school?
- ❑ Should you refinance your federal loans with a private loan to get a lower interest rate?
- ❑ Should you consolidate your federal loans in the Federal Consolidation Loan program?
- ❑ What payment plan should you choose to repay your federal student loans?
- ❑ Should you pay off your federal student loans as fast as possible?



# Should you pay the interest while it accrues in school?

17

## ***Interest on unsubsidized federal loans accrues as **SIMPLE** interest while in school!***

- ❑ It is NOT compounding while you are in school!
- ❑ Interest that accrues while you are in school “capitalizes” only when loan(s) enter/re-enter repayment.

***Therefore, it is better to reduce amount you are borrowing rather than paying the accruing interest if you have funds to pay that interest while in school—you will get more “bang for your buck!”***

Did you know?

***You can return unused loan funds!***

18

***If you return loan funds within 120 days of disbursement:***

- ❑ Total amount owed is reduced
- ❑ Interest and fees charged on loan amount returned are reversed

***Contact the financial aid staff for more information.***

# Should you refinance with a private loan?

19

## ***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 will increase the **opportunity cost** (*likely will have to and/or want 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!***

# Should you “consolidate” your federal student loans?

20

- ❑ May be helpful – particularly if you have non-DIRECT federal student loans – not likely necessary if you only have DIRECT Loans
- ❑ Consolidation is the *refinancing* of federal student loan debt—not the **combining** of debt—you are borrowing a **new** Federal Direct Consolidation Loan
- ❑ Only 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, but then it is rounded up to nearest 1/8<sup>th</sup> percent

# What payment plan should you choose?

21

## ***Consider:***

- ❑ Choosing the payment plan that offers the ***LOWEST*** scheduled monthly payment – *you can always pay extra*

## ***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., credit cards, private student loans)

## ***AND/OR***

- ❑ Allocate “extra cash” for other purposes (e.g., investing and saving for the future)

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

22

***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 as long as possible to repay your Federal Student Loans.

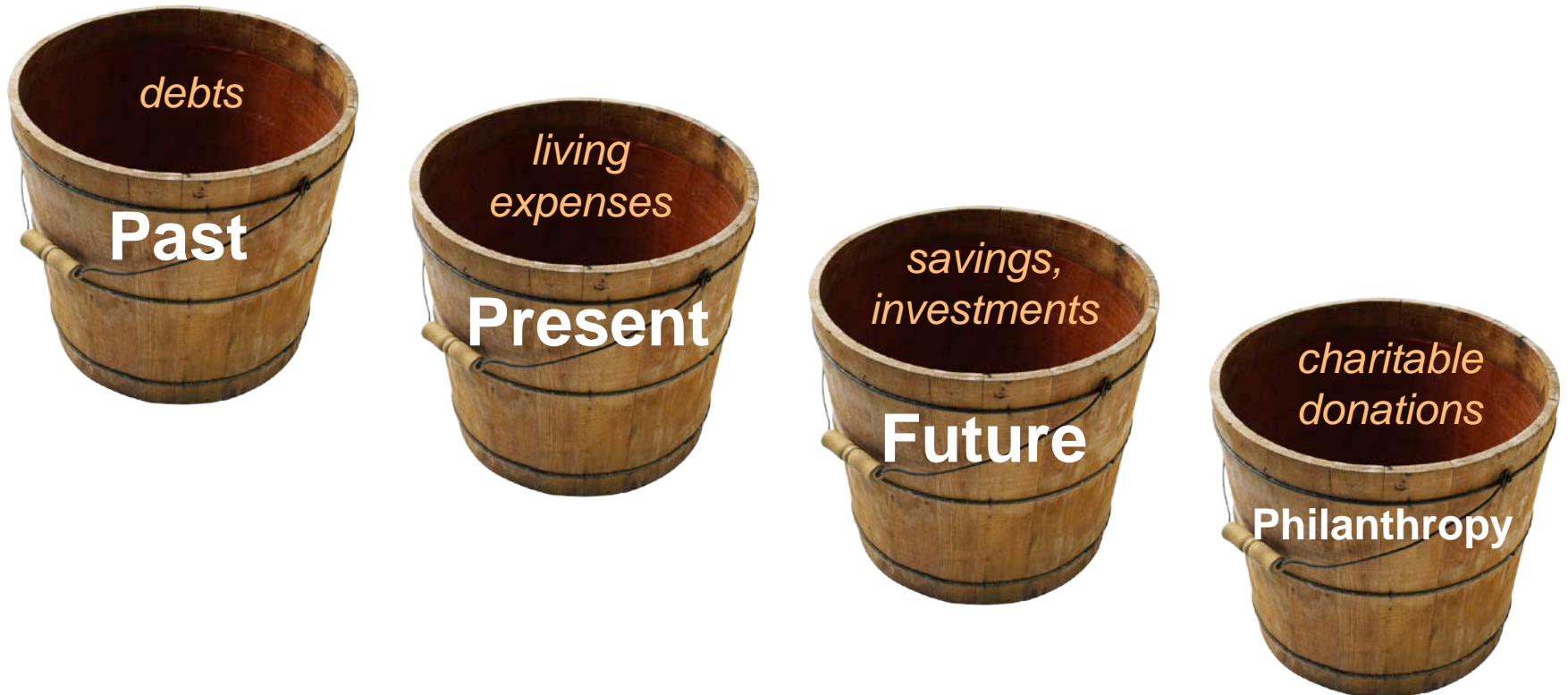
***Why?***

❑ You may have better uses for your “extra” funds in terms of “opportunity cost.”

# How will you use your money?

23

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



# The “Future” Bucket ...

## ***A “bucket” you’ve been ignoring!***

24

*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 to buy a home
  - ❑ Minimum of 10% of purchase price



# Paying off your federal student loans faster ...

25

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

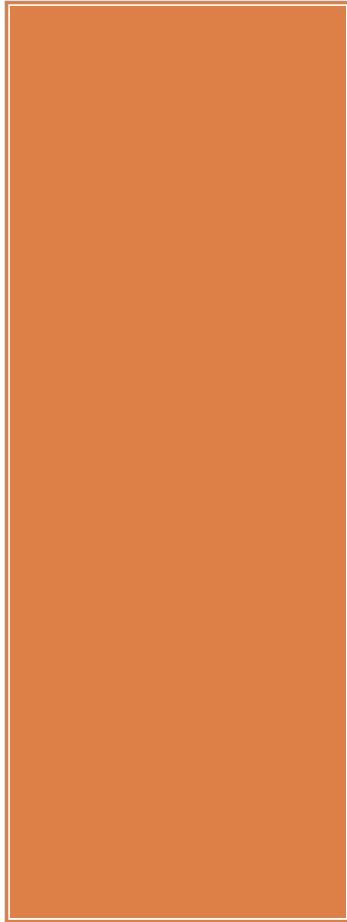
***BUT, it simultaneously***

- ❑ 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!*

# Loan Repayment Options

26



# Plans fall into two (2) categories

27

## Original Plans

- ❑ Payment based on amount of **DEBT**
- ❑ Plans
  - ❑ Standard
  - ❑ Graduated
  - ❑ Extended (*fixed*)
  - ❑ Extended (*graduated*)

## Newest Plans

- ❑ Payment based on **INCOME**
- ❑ Plans
  - ❑ Revised Pay As You Earn (REPAYE)
  - ❑ Pay As You Earn (PAYE)
  - ❑ Income-Based Repayment (IBR) – *2 options*
  - ❑ Income-Contingent Repayment (ICR)

# Amortization Schedule

## ***Payments Based on DEBT***

28

- ❑ Schedule of monthly payments (installments) that is based on:
  - ❑ Amount of debt
  - ❑ Interest rate
  - ❑ Length of repayment term
- ❑ Represents the amount you must pay each month to fully repay the debt and all accrued interest by the end of the repayment term

# Payment Plans

## Payments Based on *DEBT*

29

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

30

- ❑ Fundamentally, payments are based on a percentage of your household's “**DISCRETIONARY**” income—*not on the amount of your debt*
- ❑ Payments are adjusted every 12 months based on how your income and family size change
- ❑ Monthly payments can be less than the accrued interest each month (“negative amortization” is permitted)

# "Discretionary Income"

31

## *DISCRETIONARY INCOME:*

Portion of your household's Adjusted Gross Income (AGI) that exceeds **150%** of **federal poverty guideline** for your family size and state of residence

## *HOUSEHOLD'S AGI:*

### ***If single:***

- ❑ Only your Adjusted Gross Income (AGI)

### ***If married:***

- ❑ **REPAYE** – includes both your AGI and spouse's AGI regardless of how you file your federal tax return
- ❑ **PAYE/IBR** – only includes both your AGI and your spouse's AGI if you file a **JOINT** federal tax return (*excludes spouse's AGI if you file separate federal tax returns*)

***NOTE: IDR payment calculation will take into account spouse's eligible debt if spouse's AGI is included***

# Payment Plans

## Payments Based on *INCOME*

32

Plans	% of Disc. Income	New Borrower	PFH Required	Forgiveness <i>(taxable benefit)</i>	Subsidy
<b>REPAYE*</b>	10%	NO	NO	20/25 yrs <i>(UG only/UG&amp;Grad)</i>	All loans <i>(No time limit)</i>
<b>PAYE*</b>	10%	YES	YES <i>(payment capped)</i>	20 yrs	Sub. only <i>(up to 3 yrs)</i>
<b>IBR</b> <i>for New Borrowers</i>	10%	YES	YES <i>(payment capped)</i>	20 yrs	Sub. only <i>(up to 3 yrs)</i>
<b>IBR</b>	15%	NO	YES <i>(payment capped)</i>	25 yrs	Sub. only <i>(up to 3 yrs)</i>
<b>ICR*</b>	20%	NO	NO	25 yrs	NO

**\* Only Federal DIRECT Loans are eligible for this plan** *(FFEL loans must be consolidated to be eligible for REPAYE, PAYE and ICR)*



# Estimate Your Monthly Payment “Repayment Estimator” at: [StudentLoans.gov](https://studentloans.gov)

33

Federal Student Aid | StudentLoans.gov

Log In | Español

MENU

Find out your student loan repayment options here >>

Log in to StudentLoans.gov with your verified FSA ID

LOG IN

Create an FSA ID  
For assistance, call: 1-800-557-7394.

Undergraduate Students

Graduate/Professional Students

Parent Borrowers

Repayment & Consolidation

The first step in getting student aid is completing the Free Application for Federal Student Aid (FAFSA®) at [www.FAFSA.gov](https://www.FAFSA.gov). You must do this every year.

- Complete Entrance Counseling
- Complete Loan Agreement for a Subsidized/Unsubsidized Loan (MPN)
- Complete Financial Awareness Counseling
- Complete Exit Counseling
- Use the Repayment Estimator
- Complete TEACH Grant Counseling
- Complete TEACH Grant Agreement to Serve

How To Create An FSA ID

To “Log In” enter your FSA ID:

- Username
- Password

*Then select the “Repayment Estimator” from the tools and calculators that are available on the Welcome Screen.*

# To use calculator, click on: “Go to the Repayment Estimator”

34

## MY HOME PAGE

### I want to:

-  View My Documents [»](#)
-  Complete Loan Counseling (Entrance, Financial Awareness, Exit) [»](#)
-  Complete Loan Agreement (Master Promissory Note) [»](#)
-  Apply for a Direct PLUS Loan [»](#)
-  Appeal Credit Decision [»](#)
-  Complete an Endorser Addendum [»](#)
-  Complete PLUS Credit Counseling [»](#)
-  Apply for Loan Consolidation [»](#)
-  Apply for an Income Driven Repayment Plan [»](#)
-  Co-sign a Spouse's Income Driven Repayment Plan Application [»](#)
-  Complete TEACH Grant Counseling [»](#)
-  Complete TEACH Grant Agreement to Serve [»](#)

### My Correspondence

You have no new messages.

### My Profile

Name:  
Date of Birth:  
Social Security Number:  
E-mail:  
[Update My Profile](#)

### Repayment Estimator

This tool uses your loan information from National Student Loan Data System (NSLDS®) to estimate:

- initial monthly payments
- repayment plan eligibility
- repayment plan cost comparison
- total interest paid

[Go to the Repayment Estimator](#)



# Payment Estimates

## Assumptions:

**Total Debt = \$160,000**

**Interest Rate = 6.4%**

*(Weighted average interest rate)*

## IDR Plan Data:

**Tax Filing = Single**

**2016 AGI = \$36,000**

**Family Size = 1**

**State of Residence = PA**

*(2016 Federal Poverty Guidelines)*

*(Estimates calculated using  
"Repayment Estimator" at:  
StudentLoans.gov)*

Standard You will pay a total of \$216,864 over 120 months	<b>\$1,807</b>	\$1,807 - \$1,807/month	+
Graduated You will pay a total of \$232,304 over 120 months	<b>\$1,038</b>	\$1,038 - \$3,113/month	+
Extended Fixed You will pay a total of \$320,578 over 300 months	<b>\$1,069</b>	\$1,069 - \$1,069/month	+
Extended Graduated You will pay a total of \$348,075 over 300 months	<b>\$851</b>	\$851 - \$1,567/month <i>(Interest-only amount)</i>	+
Revised Pay As You Earn (REPAYE) You will pay a total of \$112,412 over 300 months	<b>\$152</b>	\$152 - \$708/month	+
Pay As You Earn (PAYE) You will pay a total of \$74,477 over 240 months	<b>\$152</b>	\$152 - \$528/month	+
Income-Based Repayment (IBR) You will pay a total of \$168,617 over 300 months	<b>\$227</b>	\$227 - \$1,062/month	+
IBR for New Borrowers You will pay a total of \$74,477 over 240 months	<b>\$152</b>	\$152 - \$528/month	+
Income-Contingent Repayment (ICR) You will pay a total of \$264,427 over 300 months	<b>\$402</b>	\$402 - \$1,589/month	+

# Interest Subsidy—REPAYE

**Federal Student Loan Debt = \$160,000 (all unsub)** (Weighted avg. interest rate = 6.4%)

**Household AGI = \$36,000** (Household Size = 1; State = PA; 2016 Poverty Guidelines)

(Estimates calculated using “Repayment Estimator” at: [StudentLoans.gov](http://StudentLoans.gov))

36

Item	Amount (\$)
Interest accrued/month (“ <i>Extended Graduated</i> ” payment)	\$851
“REPAYE” monthly payment	\$152
Negative amortization (unpaid interest)	\$699
50% subsidy of negative amortization	\$349.50
Annual subsidy	\$4,194

# Payment Estimates

## Assumptions:

**Total Debt = \$160,000**

**Interest Rate = 6.4%**

*(Weighted average interest rate)*

## IDR Plan Data:

**Tax Filing = Single**

**AGI = \$180,000**

**Family Size = 1**

**State of Residence = PA**

*(2016 Federal Poverty Guidelines)*

*(Estimates calculated using  
"Repayment Estimator" at:  
StudentLoans.gov)*

Standard You will pay a total of \$216,864 over 120 months	<b>\$1,807</b>	\$1,807 - \$1,807/month	+
Graduated You will pay a total of \$232,304 over 120 months	<b>\$1,038</b>	\$1,038 - \$3,113/month	+
Extended Fixed You will pay a total of \$320,578 over 300 months	<b>\$1,069</b>	\$1,069 - \$1,069/month	+
Extended Graduated You will pay a total of \$348,075 over 300 months	<b>\$851</b>	\$851 - \$1,567/month <i>(Interest-only amount)</i>	+
Revised Pay As You Earn (REPAYE) You will pay a total of \$229,128 over 130 months	<b>\$1,352</b>	\$1,352 - \$2,257/month	+
Pay As You Earn (PAYE) You will pay a total of \$230,874 over 139 months	<b>\$1,352</b>	\$1,352 - \$1,807/month	+
Income-Based Repayment (IBR) You're ineligible for this plan based on the inputs above	<b>Not Eligible-no PFH</b>		+
Income-Contingent Repayment (ICR) You will pay a total of \$195,307 over 76 months	<b>\$2,488</b>	\$2,488 - \$2,685/month	+

# Apply for IDR plan at: StudentLoans.gov

**Click on: “Apply for an Income Driven Repayment Plan”**

38

Federal Student Aid  
An OFFICE of the U.S. DEPARTMENT of EDUCATION

StudentLoans.gov

Hi, Jeffrey | Log Out

MENU ☰

## MY HOME PAGE

### I want to:

-  View My Documents >>
-  Complete Loan Counseling (Entrance, Financial Awareness, Exit) >>
-  Complete Loan Agreement (Master Promissory Note) >>
-  Apply for a Direct PLUS Loan >>
-  Appeal Credit Decision >>
-  Complete an Endorser Addendum >>
-  Complete PLUS Credit Counseling >>
-  Apply for Loan Consolidation >>
-  Apply for an Income Driven Repayment Plan >>
-  Co-sign a Spouse's Income Driven Repayment Plan Application >>
-  Complete TEACH Grant Counseling >>
-  Complete TEACH Grant Agreement to Serve >>

### My Correspondence

You have no new messages.

### My Profile

Name:  
Date of Birth:  
Social Security Number:  
E-mail:  
[Update My Profile](#)

### Repayment Estimator

This tool uses your loan information from National Student Loan Data System (NSLDS®) to estimate:

- initial monthly payments
- repayment plan eligibility
- repayment plan cost comparison
- total interest paid

[Go to the Repayment Estimator](#)

# Completing IDR Plan Request

## ***The “Loophole” Question***

39

- ❑ Step 2 of the IDR application asks the following question:
  - ❑ “Is your your current income *significantly different* from the AGI on your prior year’s federal tax return, for example have you lost your job or had a loss of income?”
  - ❑ **“Significantly different”** is not defined—*that is the “loophole”*
    - ❑ The only clarification is the example: “ ***... have you lost your job or had a loss of income?***”
    - ❑ As such, **there is no wrong answer to the question**—*you can answer NO even if you now have more income*
    - ❑ BUT, you must have filed your tax return in the prior year to take advantage of this “loophole”



40

Be strategic in repayment ...

*... leverage the unique nature of federal student loans!*



# Develop Your “Action Plan”

## **4 Steps**

41

1. Take stock of your loan portfolio
  - Review loan summary/details at: [NSLDS.ed.gov](https://www.nslds.ed.gov)
2. Determine when repayment begins
3. Choose your payment plan
4. Evaluate if “**Consolidation**” is beneficial

*Remember, you must repay all that you owe!*

42

# Taking Charge

Final words ...

# When making decisions about student loan repayment ...

43

## ***Be strategic!***

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

# Direct Loan payment tips ...

44

## ❑ **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
  - Saves money -- ***interest rate reduced by 0.25%***

# Loan Prepayment

45

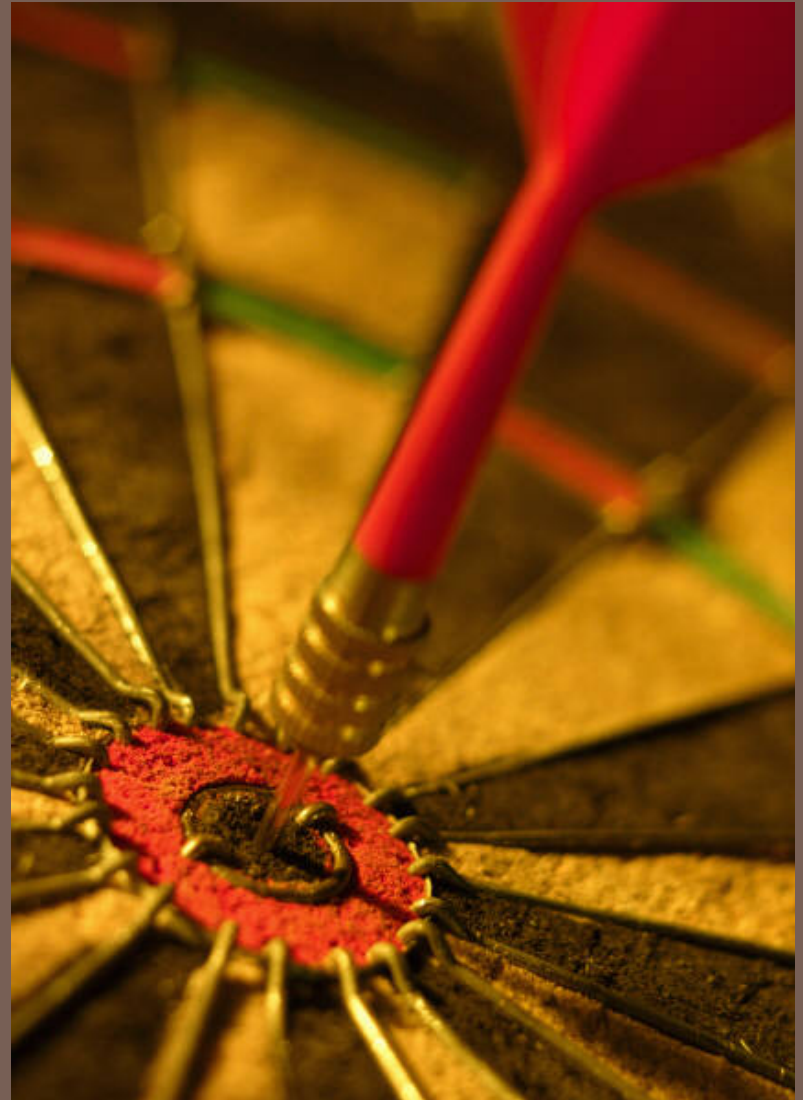
- ❑ No penalty for prepayments
  - ❑ But prepayments must first pay any accrued interest; *cannot be targeted solely at principal balance*
- ❑ Contact your loan servicer before you prepay
  - ❑ *Ask what steps are needed to submit prepayments*
  - ❑ *Advise servicer you want to “prepay” the loan rather than “advance the due date”*
  - ❑ *Target prepayment at loan(s) with highest interest rate*

# For more information ...

46

- ❑ Contact your loan servicer(s)
- ❑ Online resources:
  - ❑ Federal student loan repayment: [StudentAid.gov](http://StudentAid.gov)
  - ❑ Federal loan “Repayment Estimator”: [StudentLoans.gov](http://StudentLoans.gov)
  - ❑ Federal Direct Consolidation Loans: [StudentLoans.gov](http://StudentLoans.gov)
  - ❑ Income-Driven Repayment (IDR) Plans: [StudentLoans.gov](http://StudentLoans.gov)
  - ❑ National Student Loan Data System: [NSLDS.ed.gov](http://NSLDS.ed.gov)
  - ❑ Public Service Loan Forgiveness Program (PSLF):
    - Online at: [StudentAid.ed.gov/PublicService](http://StudentAid.ed.gov/PublicService)
    - Call Fedloan Servicing at: **1-855-265-4038**
  - ❑ Free annual credit report: [AnnualCreditReport.com](http://AnnualCreditReport.com)

BE STRATEGIC:  
**Take Charge of  
Loan Repayment!**



Jeffrey Hanson  
Education Services

**University of Pennsylvania School of Law**