Student Loan Repayment Strategies for Medical and Dental Students
University of Connecticut
Schools of Medicine and Dental Medicine

Presenters:  Joe Garzillo, Vice President and Region Head, East Region
            Kristin Hawley-Johnson, Director of Business Development

April 10, 2019

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.

Today’s discussion will help you to…

• Know your loan portfolio – loan types and relative cost
• Know important decision points
• Know ways to postpone payments
• Know repayment plan options
• Know your available resources
THE BASICS

Know Your Loan Portfolio

- Know what types of loans you have
  - Federal Direct Loans
  - Federal Perkins Loans
  - Federal Stafford Loans
  - FederalPLUS Loans
  - Private/Alternative Loans

- Identify your servicers
  - Federal and/or private loans may not all be with one servicer
    - Great Lakes
    - Nelnet
    - Fed Loan Servicing
    - Navient
    - Others

Subsidized vs Unsubsidized Loans

Subsidized Loans

- Have no interest cost while student is in school, in grace (if applicable), or in a period of authorized deferment

EXAMPLES

- Direct Subsidized Loans
- Consolidation Loans - portion of underlying eligible subsidized loans
- Some institutional loans (see promissory note or aid office)

Unsubsidized Loans

- Borrower is responsible for interest that accrues from the time of disbursement

EXAMPLES

- Direct Unsubsidized Loans
- PLUS Loan for Graduate Students
- Consolidation Loans - unsubsidized portion, which includes the unsubsidized Stafford loans plus any Perkins
- Private Loans

*Effective July 1, 2012, Subsidized Stafford Loans are no longer available for graduate students.

Note: Consolidated Appropriations Act (PLS 112-74) temporarily eliminated the interest subsidy during the six-month grace period on Subsidized Stafford loans made from July 1, 2012 through June 30, 2014. The subsidy resumed for loans made on or after July 1, 2014.

Source: This information was gathered 9/2017 from: https://studentaid.ed.gov/sa/
Finding Your Federal and Private Student Loans

Federal and Direct Student Loans
National Student Loan Data System
www.nslds.ed.gov

Private Student Loan
www.annualcreditreport.com

Finding Your Federal and Private Student Loans

National Credit Bureau Agencies

Equifax
Phone: 800-685-1111
Website: www.Equifax.com

Experian
Phone: 888-397-3742
Website: www.Experian.com

TransUnion
Phone: 800-916-8800
Website: www.TransUnion.com

Track Your Types of Loans
RELATIVE COST OF STUDENT LOANS

Relative Costs of a Student Loan

- **Interest Rate**
  - What the lender charges for the use of money
  - The higher the interest rate, the more the loan will cost overall

- **Interest Capitalization**
  - Interest capitalization occurs when unpaid interest is added to the principal amount of a loan, increasing the principal amount outstanding

- **Repayment Incentives**
  - Interest rate reductions
  - Most repayment incentives impose eligibility requirements such as signing up for automatic debit

### Loan Interest Rates

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Undergraduate</th>
<th>Graduate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Subsidized</td>
<td>3.40%</td>
<td>N/A</td>
</tr>
<tr>
<td>Direct Unsubsidized</td>
<td>6.8%</td>
<td>3.86%</td>
</tr>
<tr>
<td>Graduate PLUS</td>
<td>7.9%</td>
<td>6.41%</td>
</tr>
<tr>
<td>Consolidation</td>
<td>Fixed rate</td>
<td>Variable</td>
</tr>
<tr>
<td>Private Loans</td>
<td>3.99% - 14.29%</td>
<td>6.8% - 12.9%</td>
</tr>
</tbody>
</table>

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*Federal student loan data is gathered from https://studentaid.ed.gov. Rates, fees, and availability of federal loan products are subject to change by the U.S. Department of Education. This information is current as of the date of publication. Rates are subject to change by the U.S. Department of Education.

**Note:**
- Rates are subject to change by the U.S. Department of Education.
- Interest rates range from 3.40% to 12.9%.
Interest Capitalization and Its Impact

Interest on most loans accrues from the date funds are disbursed until the loan is paid in full.
- Capitalization is the addition of unpaid accrued interest to the principal balance of a loan. The less frequent the better.
- Capitalization may occur more frequently for certain loans during forbearance.

<table>
<thead>
<tr>
<th>Treatment of Interest</th>
<th>During Forbearance</th>
<th>Status</th>
<th>Principal at Repayment</th>
<th>Cap. Int. During Forbearance</th>
<th>Principal at end of Forbearance</th>
<th>Payment Amount</th>
<th>Total Amount Repaid</th>
<th>Total Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int. is paid as it accrues</td>
<td>$5,000</td>
<td>$0</td>
<td>$5,000</td>
<td>$57.54</td>
<td>$6,904.88</td>
<td>$2,374.88</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int. is capitalized at end of status</td>
<td>$5,000</td>
<td>$340</td>
<td>$5,340</td>
<td>$61.45</td>
<td>$7,374.55</td>
<td>$2,374.55</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The chart provides estimates, for a $5,000 Stafford loan with a 6.8% interest rate, of the monthly payments due at the end of a 12 month forbearance for a 10 year term.

Interest Capitalization and Its Impact

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<th>Total Amount Repaid</th>
<th>Total Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int. is paid as it accrues</td>
<td>$25,000</td>
<td>$0</td>
<td>$25,000</td>
<td>$293</td>
<td>$44,321</td>
<td>$20,393</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int. is capitalized at end of status</td>
<td>$32,360</td>
<td>$2,333</td>
<td>$35,667</td>
<td>$407</td>
<td>$48,790</td>
<td>$24,862</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The chart provides estimates, for $25,000 in Grad PLUS loans from a 4 year program with a 7.21% interest rate, of the monthly payments due at the end of a 12 month forbearance.

Interest Capitalization and Its Impact

Interest on most loans accrues from the date funds are disbursed until the loan is paid in full.
- Capitalization is the addition of unpaid accrued interest to the principal balance of a loan. The less frequent the better.
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<th>Total Amount Repaid</th>
<th>Total Interest Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Int. is paid as it accrues</td>
<td>$50,000</td>
<td>$0</td>
<td>$50,000</td>
<td>$586</td>
<td>$88,642</td>
<td>$40,786</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Int. is capitalized at end of status</td>
<td>$64,720</td>
<td>$4,666</td>
<td>$69,387</td>
<td>$813</td>
<td>$97,580</td>
<td>$49,724</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The chart provides estimates, for $50,000 in Grad PLUS loans from a 4 year program with a 7.21% interest rate, of the monthly payments due at the end of a 12 month forbearance.
Paying Loans Off Early

- Borrowers can always prepay federal and private student loans without penalty.
- Be aware of the relative cost and make payments towards unsubsidized loans while in school/during deferments that have the highest rates and/or most frequent capitalization. This should save more money over time.
- Unless otherwise noted, loan payments typically are applied first toward late fees, then interest, and finally principal.

Understanding Grace Periods

Grace Period - period of time after a borrower graduates, leaves school or drops to less than half-time.

- Payments may not be required during this period
- No application required
- Loan specific, varies according to loan – once used completely, it’s gone
- Direct Subsidized and Unsubsidized loans have a six-month grace period
- Private and institutional loans: check your promissory note
- Unsubsidized federal loans continue to accrue interest during the grace period
- Taking advantage of a grace period does not adversely impact credit

Record your Grace Period Status
Track Dates You Need to Take Action

Tip:
This is one of the most important items to document.
List the date that you have to take action on your loan. This can either be the graduation date or the date your grace period expires. This can be confirmed by your servicer(s).

Tracking Your Loans

Utilize this chart to help you track your loans:

Federal Forbearance During Residency

Medical and dental school residents are eligible to receive a forbearance during their residency as long as the residency meets certain criteria such as being required for a degree, certificate, or licensing for professional practice or service. (Renewable on an annual basis in 12-month increments)
Understanding Federal Loan Deferments

Deferment: period when a borrower who meets certain criteria may postpone loan payments

- Application may be required depending on deferment type; recertification for subsequent deferment periods may also be required.
- Federal student loan deferments are “borrower” specific, meaning eligibility is attached to the borrower and there is a max deferment time allotted for certain deferments.
- The government pays interest on a borrower’s behalf for subsidized loans during authorized deferment periods.

Note: Unsubsidized loans continue to accrue interest for all but the most circumstances. Forbearance is typically considered the last option if you cannot make your loan payments. Failure to make payments during the forbearance period results in late fees and damage to your credit.

Common Types of Deferments:
- In-School
- Economic Hardship
- Unemployment
- Military
- Graduate Fellowship

Understanding Federal Loan Forbearance

Discretionary Forbearance: allows a borrower who cannot make scheduled payments to temporarily delay or reduce the payments

- Interest continues to accrue on subsidized and unsubsidized loans during a forbearance period.
- Interest that accrues during the forbearance remains the borrower’s responsibility.
- Unpaid interest may be capitalized at the end of the forbearance, depending on the loan type and when the loan was disbursed. Additionally, there is a max forbearance time allotted.
- Capitalization of interest increases the amount to pay back, and will result in a higher payment amount after the forbearance. To keep your total loan cost lower, you may want to consider paying off or some of the interest that accrues during this time.

Components of Your FICO® Score

A good FICO® Score means better financial options for you.

Source: http://ficoscore.com/faq/ September 2017
Federal Loan Repayment Plans

- **Standard Repayment (Federal and Direct Loans)**
  - Level monthly payments that cover accruing interest and a portion of principal over a 10-year period
  - Higher monthly payments
  - Lowest overall cost

- **Graduated Repayment (Federal and Direct Loans)**
  - Payments start low, increase over time
  - Interest-only payments followed by standard principal & interest
  - Paid in 10 years
  - Higher overall cost – but provides lower initial payment amounts

Federal Loan Repayment Plans (Continued)

- **Income Sensitive Repayment (Federal Loans Only)**
  - Payments are based on percentage of your monthly income
  - Payments must be sufficient to cover accruing interest
  - Paid in 10 years (may be extended to 15 years)

- **Extended Repayment (Federal and Direct Loans)**
  - Available to loan borrowers who have accumulated more than $30K in Direct or FFELP Federal Stafford, PLUS & consolidation loans first disbursed on or after October 7, 1998
  - Direct and Federal loans are accumulated separately in determining eligibility
  - Repayment can be extended up to 25 years
  - Monthly payments may be lower, but interest accrues during the extended period

Federal Loan Repayment Plans (Continued)

- **Income-Contingent Repayment (Direct Loans Only)**
  - Payment is based on income
  - Student loan payments will not exceed 20% of “discretionary income”
  - Negative amortization is allowed
  - Up to 25 years to repay
  - Balance remaining after 25 years of payments can be forgiven (reportable as income)

- **Income-Based Repayment (Federal and Direct Loans)**
  - Available to federal loan borrowers experiencing financial hardship
  - Student loan payments will not 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 (reportable as income)

- **Pay As You Earn – PAYE (Direct Loans)**
  - Available to new Direct loan borrowers (except Parent PLUS) experiencing financial hardship
  - No loan balance as of October 1, 2007, and received a Direct loan on or after October 1, 2011
  - Student loan payments will not exceed 10% of “discretionary income”
  - Similar to Income Based Repayment, borrower’s monthly payment will be determined by a formula that takes into account family size and adjusted gross income. Increases in income will impact the required monthly payment amount
  - Unpaid balance may be forgiven after 20 years of qualifying repayment (reportable as income)
Federal Loan Repayment Plans

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Eligibility</th>
<th>Monthly Payment &amp; Timeframe</th>
<th>Loan Forgiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revised Pay As You Earn (REPAYE)</td>
<td>Direct Subsidized and Unsubsidized Loans, Direct PLUS loans made to students, Direct Consolidation Loans that do not include PLUS loans</td>
<td>Your monthly payments will be 10 percent of discretionary income. Payments are recalculated each year and are based on your updated income and family size.</td>
<td>Any outstanding balance on your loan will be forgiven if you haven’t repaid your loan in full after 20 or 25 years.</td>
</tr>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>Direct Subsidized and Unsubsidized Loans, Direct PLUS loans made to students, Direct Consolidation Loans that do not include PLUS loans</td>
<td>Your monthly payments will be 10 percent of discretionary income. Payments are recalculated each year and are based on your updated income and family size. If you're married, both your and your spouse's income or loan debt will be considered, whether taxes are filed jointly or separately. If you're married, both your and your spouse's income or loan debt will be considered, whether taxes are filed jointly or separately.</td>
<td>Any outstanding balance on your loan will be forgiven if you haven’t repaid your loan in full after 20 or 25 years.</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR)</td>
<td>Direct Subsidized and Unsubsidized Loans, Direct PLUS loans made to students, Direct Consolidation Loans that do not include PLUS loans</td>
<td>Your monthly payments will be 10 percent of discretionary income. Payments are recalculated each year and are based on your updated income and family size.</td>
<td>Any outstanding balance on your loan will be forgiven if you haven’t repaid your loan in full after 20 or 25 years.</td>
</tr>
<tr>
<td>Income-Contingent Repayment (ICR)</td>
<td>Direct Subsidized and Unsubsidized Loans, Direct PLUS loans made to students, Direct Consolidation Loans that do not include PLUS loans</td>
<td>Your monthly payments will be 10 percent of discretionary income. Payments are recalculated each year and are based on your updated income and family size.</td>
<td>Any outstanding balance on your loan will be forgiven if you haven’t repaid your loan in full after 20 or 25 years.</td>
</tr>
</tbody>
</table>


Federal Loan Repayment Comparison

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>First Monthly Payment</th>
<th>Last Monthly Payment</th>
<th>Total Amount Paid</th>
<th>Projected Loan Forgiveness</th>
<th>Repayment Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>$2,342</td>
<td>$2,342</td>
<td>$281,016</td>
<td>$0</td>
<td>120 months</td>
</tr>
<tr>
<td>Graduated</td>
<td>$1,356</td>
<td>$4,069</td>
<td>$303,670</td>
<td>$0</td>
<td>120 months</td>
</tr>
<tr>
<td>Extended Fixed</td>
<td>$1,438</td>
<td>$1,438</td>
<td>$431,367</td>
<td>$0</td>
<td>300 months</td>
</tr>
<tr>
<td>Extended Graduated</td>
<td>$1,166</td>
<td>$2,099</td>
<td>$466,130</td>
<td>$0</td>
<td>300 months</td>
</tr>
<tr>
<td>Revised Pay As You Earn (REPAYE)</td>
<td>$327</td>
<td>$324</td>
<td>$46,901</td>
<td>$247,449</td>
<td>120 months</td>
</tr>
<tr>
<td>Pay As You Earn (PAYE)</td>
<td>$327</td>
<td>$324</td>
<td>$46,901</td>
<td>$247,449</td>
<td>120 months</td>
</tr>
<tr>
<td>Income-Based Repayment (IBR)</td>
<td>$460</td>
<td>$785</td>
<td>$73,352</td>
<td>$270,448</td>
<td>120 months</td>
</tr>
<tr>
<td>IBR for New Borrowers</td>
<td>$327</td>
<td>$324</td>
<td>$46,901</td>
<td>$247,449</td>
<td>120 months</td>
</tr>
<tr>
<td>Income-Contingent Repayment (ICR)</td>
<td>$714</td>
<td>$1,172</td>
<td>$243,240</td>
<td>$0</td>
<td>120 months</td>
</tr>
</tbody>
</table>

Consolidation lets you combine multiple federal student loans into one loan with a fixed interest rate that’s a weighted average of your loans’ various interest rates. You won’t necessarily get a lower interest rate with consolidation, but you’ll have the convenience of making just one payment.

Refinancing occurs when a company or lender buys all your current student loans and issues you a new loan to pay them all off. You’ll get a new rate but you may lose payment flexibility and special benefits that were available through the individual lenders or the government.

Considerations:
- Will you lose any current student loan benefits, such as repayment options or Public Service Loan Forgiveness?
- Is your credit score sufficient for a lender to approve you for a consolidation or refinancing?
- Will your new loan be considered a student loan or a personal loan? If it’s not a student loan, will there be any tax consequences?
- Will you have to pay any service fees to refinance your student loans?
- Will you lose any discounts that you’ve had with your loan originator?

This information was gathered on June 20, 2017, from https://studentloans.gov/myDirectLoan/launchConsolidation.action.

Consolidation

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>• One monthly payment</td>
<td>• May lose benefits such as:</td>
</tr>
<tr>
<td>• May have a lower monthly payment</td>
<td>• Grace period</td>
</tr>
<tr>
<td>• May provide additional payment options</td>
<td>• Income-based and other repayment options</td>
</tr>
<tr>
<td>• May help avoid default</td>
<td>• Federal consolidation rounds the interest rate</td>
</tr>
<tr>
<td>• Private loan refinance/consolidation may result in a lower rate</td>
<td>• Choosing a private consolidation for your federal loans will result in the loss of some options and protections</td>
</tr>
<tr>
<td>• Consolidating federal loans that are in an income-based repayment plan or payments that count toward PSLF would result in a reset in the qualifying payments</td>
<td>• Pay more interest over time</td>
</tr>
</tbody>
</table>

Tip: Encourage borrowers to carefully consider their options before consolidating.

Private Loan repayment

Private Student Loans
- Unsubsidized for life of loan
  - Generally have a grace period prior to the time the student borrower is required to make principal and interest payments
  - Residency and internship defferments may be available
  - Forbearance and/or Deferment may be available
    - Consult the loan servicer for information
  - Repayment terms vary
    - Options may be available

NOTE: Check promissory note(s) for details.
Federal Loan Forgiveness Program for Public Service Employees

- Eligibility limited to Federal Direct Student Loan Program (FDLP) Loans
- FFELP Stafford, PLUS and Consolidation are not eligible
- FFELP Borrowers may consolidate in the FDLP
- Additionally, borrowers must have:
  - Made 120 on-time monthly payments beginning after October 1, 2007 during eligible public service employment.
  - Payments must be made under one of the payment plans: Income Based, Pay As You Earn, Income Contingent or any payment equivalent to the 10-year standard payment amount.
  - Worked full time in eligible public service employment for ten years after October 1, 2007.
  - At the time the remaining loan balance is forgiven, must be employed in an eligible public service job.

Other loan forgiveness programs may also be available – do your research!

Application process is very similar to employment certification process because borrower must be employed in full-time qualifying employer when applying for and receiving forgiveness.

Eligible Loan Types
- All Federal loans can be eligible through Direct Loan Consolidation.

Employer Eligibility
- Qualifying employment for the PSLF Program is not about the specific job a borrower does, but rather, who the employer is.

Qualifying Payment Plans
- Qualifying repayment plans include all income-driven repayment plans and the 10-year Standard Repayment Plan.
- Consolidating Direct Loans will erase any qualifying payments made.

Appropriate Time to Begin Tracking for PSLF
- Borrowers shouldn’t wait to submit an ECF until after they have made 10 years of qualifying payments.
PSLF Eligible Loans

- Federal Direct Student Loan
  - PSLF is only for Direct Loans, but all Direct Loans qualify
  - Direct Parent PLUS Loans: YES*
  - Perkins Loans: NO
  - FFELP Loans: NO
  - Direct Consolidation Loan: YES
  - Full Deduction: Single
    - Modified Adjusted Gross Income is ≤ $65,000
  - Partial Deduction: Single
    - Modified Adjusted Gross Income is $65,001 to $79,999
    - $80,000 or more
  - No Deduction: Single
  - Modified Adjusted Gross Income is $80,000 or more
  - Partial Deduction: Married Filing Jointly
    - Modified Adjusted Gross Income is ≤ $135,000
  - Partial Deduction: Married Filing Jointly
    - Modified Adjusted Gross Income is $135,001 to $164,999
  - No Deduction: Married Filing Jointly
    - Modified Adjusted Gross Income is $165,000 or more


Student Loan Interest Deduction

- Borrowers may be eligible to deduct student loan interest
- Deduction may not exceed $2,500 per year
- Voluntary payments of interest during school, deferment or forbearance may be eligible for deduction
- Interest paid on consolidation loans may be deducted
- There are eligibility rules, including income limits
  - The limits for Federal Tax Year 2018 are shown in the table below:

<table>
<thead>
<tr>
<th>Filing Status</th>
<th>Partial Deduction</th>
<th>No Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>≤ $65,000</td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$65,001 to $79,999</td>
<td></td>
</tr>
<tr>
<td>Single</td>
<td>$80,000 or more</td>
<td></td>
</tr>
<tr>
<td>Married Joint</td>
<td>≤ $135,000</td>
<td></td>
</tr>
<tr>
<td>Married Joint</td>
<td>$135,001 to $164,999</td>
<td></td>
</tr>
<tr>
<td>Married Joint</td>
<td>$165,000 or more</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: For information about your specific tax situation and any tax advice, please contact a tax professional.

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
Final Tips for Managing Your Loans and Finances

- School Financial Aid
- Lender/servicer:
  - Federal Student Aid Ombudsman
    - U.S. Department of Education – FSA Ombudsman
    - http://www.ombudsman.ed.gov or 1-877-557-2575
  - Federal Loan Servicers:
    - Great Lakes: 800-236-4300 www.mygreatlakes.org
    - Navient: 800-722-1300 www.navient.com
    - Nelnet: 888-488-4722 www.nelnet.com

Resources

Questions?