Student Loan Repayment Strategies for Medical and Dental Students

University of Connecticut
Schools of Medicine and Dental Medicine

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Let's Make College Happen

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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.

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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

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THE BASICS

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Know Your Loan Portfolio

- **Know what types of loans you have**
  - Federal Student Loans
  - Direct Student Loans
  - Perkins 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

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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 (Public Law 112-74) temporarily eliminated the interest subsidy during the 6-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/

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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

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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

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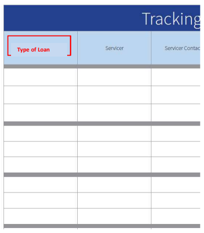
Track Your Types of Loans

Tip:
Remember to list the type of loan **exactly** as it appears in NSLDS



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RELATIVE COST OF STUDENT LOANS

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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

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Loan Interest Rates

Loan Type	Undergraduate	Graduate Rates
Direct Subsidized Loans*		
2012-13	3.40%	N/A
2013-14	3.86%	N/A
2014-15	4.66%	N/A
2015-16	4.29%	N/A
2016-17	3.76%	N/A
2017-18	4.45%	N/A
2018-19	4.05%	N/A
Direct Unsubsidized Loans*	Pre-AY 13-14: 6.8% AY 13-14: 3.86% AY 14-15: 4.66% AY 15-16: 4.29% AY 16-17: 3.76% AY 17-18: 4.45% AY 18-19: 5.05%	Pre-AY 13-14: 6.8% AY 12-14: 5.41% AY 14-15: 6.21% AY 15-16: 5.84% AY 16-17: 5.31% AY 17-18: 6.00% AY 18-19: 6.60%
Graduate PLUS Loans*	---	Pre-AY 13-14: 7.9% AY 13-14: 6.41% AY 14-15: 7.21% AY 15-16: 6.84% AY 16-17: 6.31% AY 17-18: 7.00% AY 18-19: 7.60%
Consolidation Loans*	Fixed rate based on weighted-average interest rate of underlying loans rounded up to a nearest one-eighth of a percent (capped at 8.25%)	
Private Loans*	Many lenders offer both variable and fixed rate options. Interest rates range from 3.99% to 14.29%.	

* Federal student loan information was gathered September 2018 from. https://studentaid.ed.gov Rates, fees and availability of federal loan products are subject to change by the Federal Government. Check this web site for the most up-to-date information about federal loan products.

* Based on a November 2018 review of competitors' loan programs and repayment features.

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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

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

Treatment of Interest During Forbearance Status	Principal at Repayment	Cap. Int. During Forbearance	Principal at end of Forbearance	Payment Amount	Total Amount Repaid	Total Interest Cost
Int. is paid as it accrues	$5,000	$0	$5,000	$57.54	$6,904.88	$1,904.88
Int. is capitalized at end of status	$5,000	$340	$5,340	$61.45	$7,374.55	$2,374.55

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Interest Capitalization and Its Impact

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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

Treatment of Interest During Forbearance Status	Principal at Repayment	Cap. Int. During Forbearance	Principal at end of Forbearance	Payment Amount	Total Amount Repaid	Total Interest Cost
Int. is paid as it accrues	$25,000	$0	$25,000	$293	$44,321	$20,393
Int. is capitalized at end of status	$32,360	$2,333	$35,667	$407	$48,790	$24,862

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Interest Capitalization and Its Impact

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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

Treatment of Interest During Forbearance Status	Principal at Repayment	Cap. Int. During Forbearance	Principal at end of Forbearance	Payment Amount	Total Amount Repaid	Total Interest Cost
Int. is paid as it accrues	$50,000	$0	$50,000	$586	$88,642	$40,786
Int. is capitalized at end of status	$64,720	$4,666	$69,387	$813	$97,580	$49,724

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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

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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

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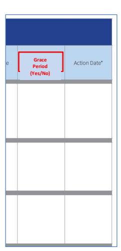
Record your Grace Period Status



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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)

Grace Period (Yes or No)	Action Date*

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Tracking Your Loans

Utilize this chart to help you track your loans

Important Advice for Students

Student Loan and Financial Planning Checklist

SallieMae

You can track your loans by filling out the fields below. Note: if your version of Adobe does not support editable fields, we encourage you to print this worksheet and complete the appropriate fields by hand.

Tracking My Loans

Type of Loan	Servicer	Servicer Contact Info	Loan Amount	Interest Rate	Grace Period (Yes or No)	Action Date*

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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)

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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

Common Types of Deferments:

- ✓ In-School
- ✓ Economic Hardship
- ✓ Unemployment
- ✓ Military
- ✓ Graduate Fellowship

Note: Unsubsidized loans continue to accrue interest for which the borrower is responsible. Unless the interest is paid by the borrower, it may be capitalized (added to your principal balance) at the of the deferment period. To keep your total loan cost lower, you may want to consider paying all or some of the interest that accrues during this time.

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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 all or some of the interest that accrues during this time.

TIPS:

Be careful, the use of **forbearance adds expense**!

Forbearances can help you **stay out of delinquency and default!**

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Components of Your FICO® Score

1. **Payment history (35% of your scores):** Whether you've paid past credit accounts on time
2. **Amounts owed (30% of your scores):** The amount of credit and loans you are using
3. **Length of credit history (15% of your scores):** How long you've had credit
4. **New credit (10% of your scores):** Frequency of credit inquires and new account openings
5. **Credit mix (10% of your scores):** The mix of your credit, retail accounts, installment loans, finance company accounts and mortgage loans

A good FICO® Score means better financial options for you

Source: http://ficoscore.com/faq/ September 2017

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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
  - Finish in 10 years
  - Higher overall cost – but provides lower initial payment amounts

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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
  - Finish in 10 years (may be extended to 15 years)
- **Extended Repayment (Federal and Direct Loans)**
  - Available to 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
  - Permits you to manage monthly cash flow needs, but will increase your cost

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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' worth 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)** Announced by ED December 21, 2012
  - Available to <u>new</u> 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)

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Federal Loan Repayment Plans

Repayment Plan	Eligible Loans	Monthly Payment & Timeframe	Quick Comparison
Revised Pay As You Earn Repayment Plan (REPAYE) Effective December 2015	• Direct Subsidized and Unsubsidized Loans • Direct PLUS loans made to students • Direct Consolidation Loans that do not include PLUS loans (Direct or FFEL) made to parents	• **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 (with limited exceptions).** • **Any outstanding balance on your loan will be forgiven if you haven't repaid your loan in full after 20 or 25 years.** • **Excess unpaid interest on subsidized direct loans will be paid for the first three years, then afterwards, 50% of unpaid accrued interest for both subsidized and unsubsidized direct loans covered throughout the REPAYE repayment period.**	• Any Direct Loan borrower with an eligible loan type may choose this plan. • Your monthly payment can be more than the 10-year Standard Plan amount. • You may have to pay income tax on any amount that is forgiven. • Good option for those seeking Public Service *Loan Forgiveness*

Source: Information gathered 7/2016 from https://studentaid.ed.gov/sa/repay-loans/understand/plans

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Federal Loan Repayment Comparison

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness	Repayment Period
Standard	$2,342	$2,342	$281,016	$0	120 months
Graduated	$1,356	$4,069	$303,670	$0	120 months
Extended Fixed	$1,438	$1,438	$431,367	$0	300 months
Extended Graduated	$1,198	$2,008	$466,130	$0	300 months
Revised Pay As You Earn (REPAYE)	$307	$524	$48,901	$247,449	120 months
Pay As You Earn (PAYE)	$307	$524	$48,901	$294,899	120 months
Income-Based Repayment (IBR)	$460	$785	$73,352	$270,448	120 months
IBR for New Borrowers	$307	$524	$48,901	$294,889	120 months
Income-Contingent Repayment (ICR)	$714	$1,172	$111,320	$243,590	120 months

Assumes $200,000 in graduate loans over a 4 year period (4 unsubsidized loans of $20,500 each and 4 GradPLUS loans of $20,500 each). Assumes current interest rate of 6.60% for all unsubsidized loans and 7.60% for all GradPLUS Loans, annual income of $55,000, the borrower qualifies for PSLF, and household size of 1

Source: Information verified 6/2018 from https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action

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Federal Loan Repayment Comparison

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness	Repayment Period
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Extended Fixed	$1,438	$1,438	$431,367	$0	300 months
Extended Graduated	$1,198	$2,008	$466,130	$0	300 months
Revised Pay As You Earn (REPAYE)	$1,098	$1,752	$168,391	$169,661	120 months
Pay As You Earn (PAYE)	$1,098	$1,752	$168,391	$170,966	120 months
Income-Based Repayment (IBR)	$1,647	$2,342	$246,973	$58,516	120 months
IBR for New Borrowers	$1,098	$1,752	$168,391	$170,966	120 months
Income-Contingent Repayment (ICR)	$2,298	$3,274	$269,778	$0	98 months

Assumes $200,000 in graduate loans over a 4 year period (4 unsubsidized loans of $20,500 each and 4 GradPLUS loans of $20,500 each). Assumes current interest rate of 6.60% for all unsubsidized loans and 7.60% for all GradPLUS Loans, annual income of $150,000, the borrower qualifies for PSLF, and household size of 1.

Source: Information verified 6/2018 from https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action

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Consolidate or Refinance?

- **Consolidation**
  - 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.[1] You won't necessarily get a lower interest rate with consolidation, but you'll have the convenience of making just one payment.
- **Refinancing**
  - 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?

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

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Consolidation

Pros
- One monthly payment
- May have a lower monthly payment
- May provide additional payment options
- May help avoid default
- Private loan refinance/consolidation may result in a lower rate
- 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

Cons
- May lose benefits such as:
  - Grace period
  - Income based and other repayment options
- Federal consolidation rounds the interest rate
- Choosing a private consolidation for your federal loans will result in the loss of some options and protections
- Pay more interest over time

Tip: Encourage borrowers to carefully consider their options before consolidating

Sources: StudentLoanHero.org; Debt.org; studentaid.ed.gov

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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 deferments 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

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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!

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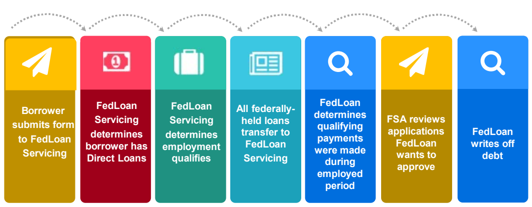

Application process is very similar to employment certification process because borrower must be employed in full-time qualifying employer when applying for and receiving forgiveness.

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Federal Student Aid

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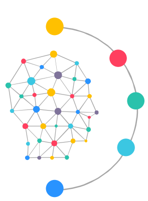

Eligible Loan Types
All Federal loans can be eligible through Direct Loan Consolidation.

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.

Consolidation and PSLF
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.

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Federal Student Aid

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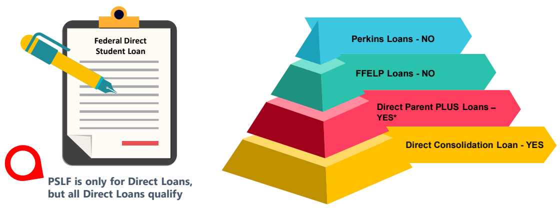

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FederalStudentAid

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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:

	Full Deduction	Partial Deduction	No Deduction
Single	Modified Adjusted Gross Income Is </= $65,000	$65,001 to $79,999	$80,000 or more
Married Filing jointly	Modified Adjusted Gross Income is </= $135,000	$135,001 to $164,999	$165,000 or more

Source -http://www.irs.gov/publications/p970/ch04.html

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

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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

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Final Tips for Managing Your Loans and Finances

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Resources

- 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
  - Fed Loan Servicing: 800-699-2908 www.myfedloan.org
  - Navient: 800-722-1300 www.navient.com
  - Nelnet: 888-486-4722 www.nelnet.com

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Questions?

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