PHASE 2: Graduated/ Left School Repayment of Student Loans
PHASE 2: Graduated/ Left School
Repayment of Student Loans

Included in Phase 2:

I. Collection Powers
II. Repayment Plan Options

Note: You can access the information on your student loans at www.nslds.ed.gov
I. Collection Powers- Federal Loans

- For **Federal loans**, there is no Statute of Limitations on collection of the loan, this means that the federal government will always be able to collect on your student loan debt until you repay in full or die.

- The Federal government **CAN**:  
  1) Garnish wages if employed  
  2) Take your tax refunds (tax offsets)  
  3) Garnish disability or social security payments if cannot work  
  4) Assign the debt to a collection agency - which will charge collection fees of up to 30% on payments  

  ➢ These collection fees can capitalize to principal and accrue interest
I. Collection Powers – Private Loans

- Private lenders do **not** have all the same powers to collect that the federal government has
  - They **CANNOT** garnish wages, garnish Social Security Benefits, or take a tax refund
- In many cases there is a Statute of Limitations and in South Carolina it is 3 years, however, they still have many powers to collect:
  1. Charge collection fees that are added to your principal balance
  2. Assign the debt to a collection agency
  3. The lender (or the collection agency) can take you to court and seek a judgment against you
     - This becomes a judicial lien against property you own
     - In SC, the lender cannot garnish your wages to pay a judgment
II. Repayment Plan Options

Section 1: Grace Period
Section 2: Federal Loan Repayment Plans
Section 3: Private Loans
Section 4: Consolidation
Section 5: Comparison of Payments and Aggregate Payouts by Repayment Plan
Section 1: Grace Period
Section 1: Grace Period

- After you graduate (or leave school for any reason), you enter the **repayment phase**
- **Federal loans** have a 6 month grace period (9 months for Perkins loans) in which a student does not have to begin repayment
  - For all Unsubsidized loans, if you do not pay the interest during this time, it will be added to your principal balance
  - For PLUS loans, a student **must request a grace period** which can be for up to 6 months
- **Note:** This does not mean that you have to wait 6 months before beginning to make payments
- **Private loans** may or may not have a grace period – you should contact your private lender
Can You Defer Repayment Past the Grace Period?

• **Yes, IF** you enroll in a graduate or professional degree program **during** the grace period
  - The loans from your undergraduate program will remain deferred as long as you are enrolled at least half-time

• **Yes, IF** you are called to active military duty **within** the grace period
  - The same rules for deferment length apply as when a student is called to active duty while in school

• Outside of the two reasons above, once the grace period on each of your student loans ends, **you must begin making payments**, if you haven’t already or unless you have obtained a deferment, forbearance, or other relief from your servicer
Section 2: Federal Repayment Programs
There are **8 types** of Federal Repayment Programs:

1. Federal Perkins Loans
2. Standard Repayment Plan
3. Graduated Repayment Plan
4. Extended Repayment Plan
5. Income-Based Repayment Plan (IBR)
6. Income-Sensitive Repayment Plan (ISR)
7. Income-Contingent Repayment Plan (ICR)
8. Pay As You Earn Repayment Plan
1) Federal Perkins Loan

- **Repayment term**: up to 10 years
  - The school will set up how often payments are due (monthly, bi-monthly, or quarterly)
- **Minimum payment**: $40
  - The school can round all payments up to the nearest multiple of $5
- You can request permission for **graduated installment payments**, **but** you must get approval from the U.S. Department of Education and your school

- The repayment plan can be extended **IF**:
  - You are experiencing prolonged illness or unemployment
  - Your income does not exceed the Federal Income Protection Allowance for debtor’s family size in the preceding year
- A Perkins Loan can be **consolidated** into a Direct Consolidation Loan or a FFEL Consolidation Loan, **however**, by doing this you will lose all discharge and cancellation benefits specific to the Perkins Loan
2) Standard Repayment Plan

- **Eligible Loans**: all PLUS loans, all Direct loans, and all Stafford loans
- **Repayment term**: 10 years
- **Payments**: are made monthly, are fixed, and must be at least $50 per month

In order to determine how much of your payment goes to interest and principal each month, you should take your interest rate and convert it to decimal form and divide by 365.25 (number of days in a year) to get the Interest Rate Factor.

- **Example**: Interest rate is 8.25%, so Interest Rate Factor is 0.00022587. The remaining balance on the loan is $9,500 with a monthly payment of $160 and you made payment 32 days ago:
  - $9,500 * 0.00022587 = $68.66 of payment applied to interest with the remaining $91.34 of the payment applied to the outstanding principal balance.
Standard Repayment Plan (cont.)

- **Pros**
  - Pay less interest for the loan over time
  - Pay off the debt faster than under any of the other repayment plans

- **Cons**
  - Payments are very high at the beginning
  - Payments do not adjust with negative changes in income
3) Graduated Repayment Plan

- **Eligible Loans**: all PLUS loans, all Direct loans, and all Stafford loans

- **Repayment term**: 10 years

- **Monthly payments** are lower at first and then increase (about every 2 years)
  - Monthly payments **will never be less than** the amount of interest that accrues between payments
  - Monthly payments **will never be less than** 3 times greater than any other payment

- The servicer will notify you of payment changes and payment schedule

- This plan is ideal for individuals with low current incomes (such as recent graduates), but who expect their incomes to increase in the future

**Pros**
- The payments are initially lower than those under the 10 Year Standard Repayment Plan
- The loan is paid off in full in 10 years

**Cons**
- Pay more over time on the loan than under the Standard Repayment Plan because more interest accumulates early on while payments are low
- Payments only adjust upwards over time
4) Extended Repayment Plan

- **Eligible Loans**: all PLUS loans, all Direct loans, and all Stafford loans
- **Repayment term**: up to 25 years
- **Payments** are monthly and may be fixed or graduated
- **To be eligible**, you must be a “new borrower” as of October 7, 1998
  - As a New Borrower, you had no outstanding balance:
    - On a Direct Loan or FFEL Loan as of October 7, 1998
    - On such a loan on the date the debtor received a new loan after October 7, 1998

- For Direct Loan, you must have more than $30,000 in outstanding Direct Loans. For FFEL, you must have more than $30,000 in outstanding FFEL loans.
  - If you have both types of loans, you can only be eligible for Extended Repayment for the loans you have more than $30,000
Extended Repayment Plan (cont.)

**Pros**
- Payments are lower than the Standard or Graduated 10 Year Repayment Plans and remain lower for the life of the loan
- The loan is paid in full after 25 years

**Cons**
- Pay much more in interest
- Pay a larger sum of money in total to pay off the loan
5) Income-Based Repayment Plan (IBR)

- **Eligible Loans**: all PLUS loans, all Direct loans, and all Stafford loans
  - This does **NOT** include Consolidation Loans **that include** Direct and FFEL PLUS loans **made to parents**

- **Repayment term**: up to 25 years

- **Maximum Monthly Payments** are 15% of discretionary income
  - **Discretionary Income** is the difference between your adjusted gross income and 150% of the poverty guideline for your family size and state of residence

- **To qualify for the IBR Plan**, you must have a **partial financial hardship**
  - When the annual amount due on your eligible loans (as calculated under the 10 year Standard Repayment Plan) exceeds 15% of the difference between your adjusted gross income and 150% of the requisite poverty guideline

- **The poverty guidelines can be found here:** [http://aspe.hhs.gov/poverty/14poverty.cfm](http://aspe.hhs.gov/poverty/14poverty.cfm)

- **Pros**
  - The monthly payments will be lower than under the 10 Year Standard Repayment Plan
  - If you have not repaid the loan in full after the equivalent of 25 years of qualifying monthly payments, any outstanding loan balance is forgiven

- **Cons**
  - Will pay more for the loan over time than under the Standard Repayment Plan
  - May have to pay income tax on the amount that is forgiven, unless, the debtor participates in another special loan forgiveness program
6) Income-Sensitive Repayment Plan (ISR)

- **Eligible Loans**: Subsidized and Unsubsidized Federal Stafford loans, FFEL PLUS loans, and FFEL Consolidation loans
- **Repayment term**: up to 10 years
- **Monthly payment** will be a percentage of your annual income and the servicer will work out the percentage with you
  - The formula for determining the percentage differs with each servicer
- The payments can increase or decrease as your income changes
- **Pros**
  - The payments will likely be lower than under the 10 Year Standard Repayment Plan, which is very beneficial to lower income borrowers
- **Cons**
  - Will pay more for the loan over time than would under the 10 Year Standard Repayment Plan
  - There is no loan forgiveness at the end of this payment cycle
7) Income-Contingent Repayment Plan (ICR)

- **Eligible Loans**: Direct Subsidized and Unsubsidized loans, Direct PLUS loans made to students, and Direct Consolidation loans
- **Repayment term**: up to 25 years
- **Monthly payments** are calculated according to adjusted gross income, family size, and total outstanding Direct Loan balance
- The payments will increase or decrease as your income changes
- **Pros**
  - The monthly payments will likely be lower than under the 10 Year Standard Repayment Plan
  - If you do not repay the loan in full after making the equivalent of 25 years of qualifying monthly payments, the unpaid portion is forgiven
- **Cons**
  - Will pay more for the loan over time than under the 10 Year Standard Repayment Plan
  - May have to pay income tax on any amount of the loan that is forgiven
8) Pay As You Earn Repayment Plan (PAYE)

- **Eligible Loans**: Direct Subsidized and Unsubsidized loans, Direct PLUS loans made to students, and Direct Consolidation loans that do not include any type of PLUS loans made to parents.
- **Repayment term**: up to 20 years.
- **Maximum Monthly Payments** will be 10% of discretionary income.
- You must have a **partial financial hardship**
  - When the annual amount due on the eligible loans (as calculated under the 10 year Standard Repayment Plan) exceeds 10% of the difference between your adjusted gross income and 150% of the requisite poverty guideline.
- You must be a **new borrower** on or after October 1, 2007 **AND** must have received disbursements of a Direct Loan on or after October 1, 2011.

**Pros**
- Monthly payments will be lower than payments under the 10 Year Standard Repayment Plan.
- If you have not repaid the loan in full after making the equivalent of 20 years or qualifying payments, any outstanding balance is forgiven.

**Cons**
- Will pay more for the loan over time than would under the 10 Year Standard Repayment Plan.
- May have to pay income tax on any amount of the loan balance that is forgiven.
Section 3: Repayment of Private Loans
Section 3: Repayment of Private Loans

- Federal repayment programs do not apply.
- Default in payment is considered a breach of contract so collection efforts may begin after missing one payment.
- Check the terms outlined in your student loan promissory note.
- The lender should inform you in writing of:
  - the type of repayment plan
  - due dates of each payment
  - what payment is due each month
- You may be able to renegotiate a different type of repayment plan but there is no requirement that the bank allow anything but the terms you originally signed for.
Section 4: Consolidation
Section 4: Consolidation

- What Is It?
- Pros of Consolidation
- Cons of Consolidation
- How to Consolidate Loans?
- Important Reminders
- Consolidating Private Loans

Note: As of May 18, 2014 there is a new process to apply for Direct Loan consolidation at studentloans.gov.
What Is Consolidation?

- If you have a number of different federal loans, those loans can be consolidated into a single **Direct Consolidation Loan**
  - This means you will only have to make one payment each month to the consolidation servicer
  - After consolidating, your servicer will change and the Department of Education will let you know who your new servicer is
- **Parent PLUS loans** and **private loans** are **ineligible** for a Direct Consolidation Loan
- There is **NO application fee** for a Direct Consolidation Loan
  - Visit studentloans.gov
- You can consolidate any time after graduating, leaving school, or dropping below half-time enrollment
  - The consolidation servicer pays off your old loans (which will no longer exist) and you will receive a **new single loan** that you will then begin to pay off
Pros of Consolidation

- Simplifies payments to only one new servicer
- Allows loan repayment to be stretched out for up to 30 years
- Can lower monthly payments significantly
- Can lower the interest rate – this loan has a fixed interest rate
  - The rate is the weighted average of the interest rates of the loans to be consolidated, rounded up to the nearest 1/8th of a percent
- Can provide you with access to alternative repayment plans
- Can prepay anytime with no penalty

Cons of Consolidation

- Longer payment periods = more payout over the life of the loan and more interest paid on the loan
- May lose any borrower benefits offered with the original loan if consolidate
  - This is especially true for Perkins Loans
- If monetary problems are likely to be short term, it may be better to consider deferment or forbearance for payment relief
- If you have defaulted on any of your loans, then there are additional steps to go through to get these loans consolidated
How to Consolidate Loans

- **To apply** for a Direct Consolidation Loan, you should:
  - Apply through StudentLoans.gov
- You must have **at least one** Direct or FFEL loan in either a grace period or in repayment
- To consolidate an **existing** consolidation loan, you must include another Direct Loan or FFEL Loan
- The consolidation loan servicer can help you pick out a new repayment plan
Consolidation: Important Reminders

- You **must continue** to make payments to the servicers of the loans **UNTIL** the new consolidation servicer **sends notice** that the underlying loans have been consolidated and paid off.
- Repayment of the consolidation loan can begin within 60 days after the loan is disbursed.
  - The consolidation servicer will tell you when the first payment is due and what amount is due.
Consolidating Private Loans

- If you want to consolidate private loans, a **private debt relief organization** can do this **for a fee** (and can include federal loans as well)
  - The private debt relief organization will now own the debt and you must pay them
  - You will lose any protections you might have had on federal loans consolidated this way
  - There are fewer repayment plans available as compared to federal loan consolidation

See finaid.org
Section 5: Comparison of Payments and Aggregate Payouts by Repayment Plan

The Department of Education Studentaid.ed.gov website has a Repayment Calculator that allows comparisons of payments by each plan.
Example 1: The following data is for a non-married student, with the average debt level from a 4-year public university ($26,946 at 3.9% interest), who makes $35,000 in Adjusted Gross Income, residing in South Carolina

- This student is not eligible for the Extended Plan (loan balance too low) or ISR (loans assumed to not be FFEL Loans)

- **Standard 10 Year Plan** (120 months): $272 per month, payout total is $32,585
  - Assumes a Direct Consolidation Loan with 10 year payment period
Section 5: Example 1 (cont.)

- **Graduated 10 Year Plan** (120 months): $152-$455 per month, payout total is $33,979
  - Assumess a Direct Consolidation Loan with 10 year payment period
- **Income-Based Repayment** (IBR) (127 months): $222-$272 per month, payout total is $33,120
- **Income-Contingent Repayment** (ICR) (160 months): $194-$242 per month, payout total is $34,940
- **Pay As You Earn** (164 months): $148-$272 per month, payout total is $35,887
  - Pay As You Earn, IBR, and ICR all assume annual increases of 5% in income and 3.3% in the poverty line
## Section 5 (cont.)

- **Example 2:** this assumes a fixed interest rate of 6.8% 

<table>
<thead>
<tr>
<th>Initial Debt When Entering Repayment</th>
<th>Standard 10 Year Plan</th>
<th>Graduated 10 Year Plan</th>
<th>Extended 25 Year Plan</th>
<th>Income-Based (IBR only)</th>
<th>Income-Sensitive (FFEL only)</th>
<th>Income-Contingent (Direct Loans only)</th>
<th>Pay As You Earn (Direct Loans only)</th>
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<td>Monthly Payment</td>
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*IBR is calculated based on adjusted gross income of $30,000 and family size of one living in the contiguous US

*ISR is calculated based on annual wage of $30,000 and 4% monthly adjusted gross income allocation to the loan payment

*ICR is calculated based on adjusted gross income of $30,000 and family size of one living in the contiguous US

*Pay As Your Earn is calculated based on adjusted gross income of $30,000 and family size of one living in the contiguous US