



Loan Repayment Options: What You Need to Know

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Topics

- Multiple Servicer Environment: Background & Update
- Grace Period & Repayment Plans: The Basics
- Know Your Entitlements
- What Students Should Know



Multiple Servicer Environment

- The ECASLA legislation (2008) allowed Lenders to sell FFEL loans to ED to help ease the financial stress felt by banks at the time. Purchased loans were called “PUT” loans
- To support federally-held loans (PUT and DL), FSA increased the number of servicers from one servicer to five. The additional servicers are often referred to as “TIVAS,” for Title IV Additional Servicers
- Not-For-Profit servicers were awarded federal loan servicing contracts under the HCERA/SAFRA Not-For-Profit (NFP) Servicer Program solicitation (2010)



Multiple Servicer Environment: Split Borrowers

- “Split Borrowers”—Created when FFEL loans were purchased by ED, it resulted in some borrowers having their federally-held loans assigned to multiple servicers
- Also occurs if a borrower with a loan serviced by a Not-For-Profit (NFP) servicer returns to school and obtains a Direct Loan serviced by one of the TIVAS



Multiple Servicer Environment: Split Borrowers



Solution:

- FSA has a transfer process that aligns all federally-held loans belonging to a single borrower with one servicer.



Making it work...



- With the addition of new servicers challenges accompany growth and change
- Remember ... with our borrower-centric approach
 - Schools see many servicers; but
 - Borrowers see **ONE**
- Together with our servicing team, we will work to serve borrowers as efficiently as possible



Grace Periods and Repayment Plans: The Basics





Grace Periods

- After a student graduates, leaves school, or drops below half-time enrollment, there is a period of time before repayment begins. This is called the "grace period" and will be:
 - **Six months** for a Federal Stafford Loan (Direct Loan ProgramSM or Federal Family Education Loan (FFEL) ProgramSM)
 - **Nine months** for Federal Perkins Loans



Reminder: Protect the Grace Period

- Of the borrowers who defaulted, most did not receive their full 6-month grace period
- Schools must learn when a borrower leaves campus and promptly report this to NSLDS



Servicer Repayment Counseling

During the grace period our loan servicers:

- Continue to establish a relationship with the borrower
- Update and enhance borrower contact information
- Promote self-service through the web
- Discuss repayment plan options
- Discuss consolidation options



Repayment Plans

Borrowers may repay their student loans through one of several repayment plans:

- Standard Repayment Plan
- Graduated Repayment Plan
- Extended Repayment Plan
- Alternative Repayment Plans (Direct Loan Only)

Income-Driven Repayment Plans:

- Income-Based Repayment (IBR)
- Income Contingent Repayment (ICR)(Direct Loan Only)
- Income-Sensitive Repayment (FFEL Only)



Standard Plan

- Borrower pays a fixed amount each month
- Monthly payments will be at least \$50.00
- Borrower has 10 years to repay . For Consolidation Loans, the borrower has 10-30 years to repay, depending on the loan balance
- The monthly payment under the Standard plan may be higher than it would be under the other plans because the loans are repaid in the shortest time. For that reason, having a 10-year limit on repayment, borrowers may pay the least interest



Graduated Plan

- Payments start out low and increase every two years
- The length of the repayment period will be up to ten years. For Consolidation Loans, the repayment period is 10-30 years, based on loan debt
- The monthly payment will never be less than the amount of interest that accrues between payments
- Although the monthly payment will gradually increase, no single payment under this plan will be more than 3x greater than any other payment



Extended Plan

- Borrowers pay a fixed or graduated payment
- Repayment period is for up to 25 years
- Borrowers must have more than \$30,000 in outstanding loans for the specific loan program. For example, a borrower with \$35,000 in outstanding FFEL Program loans and \$10,000 in outstanding Direct Loans can choose the Extended Repayment plan for the FFEL Program loans, but not for the Direct Loans
- Under Extended, the fixed monthly payment is lower than it would be under the Standard Plan, but the borrower will accumulate more interest because of the longer repayment period



Alternative Plans

An alternative repayment plan may be used when the terms and conditions of other repayment plans are not adequate to accommodate a borrower's circumstances. The borrower must provide evidence of the exceptional circumstance and the terms must be within the following restrictions:

- Maximum 30 year term
- Minimum payment of \$5.00
- Payments cannot vary by more than 3x the smallest payment

There are four different Direct Loan Alternative Repayment Plans:

- Alternative Fixed Payment
- Alternative Fixed Term

- Alternative Graduated
- Alternative Negative Amortization



Income-Sensitive Repayment

- Income-Sensitive Repayment Plan for FFEL Loans only
- Monthly loan payment is based on the borrower's annual income
- As income increases or decreases, so do the payments
- The maximum repayment period is 10 years. Borrowers should ask their lender for more information on FFEL Income-Sensitive Repayment plans



Income Contingent Repayment (ICR)

- Direct Loans only
- Monthly payments are calculated on the basis of the borrower's adjusted gross income (AGI), plus spouse's income if married, family size, and the total amount of Direct Loans. Under the ICR plan, the borrower will pay each month the lesser of:
 - The amount a borrower would pay if he/she repaid the loan in 12 years, multiplied by an income percentage factor that varies with the annual income, or
 - 20% of the borrower's monthly discretionary income



ICR - Continued

- The maximum repayment period is 25 years. If not fully repaid after 25 years (time spent in deferment or forbearance does not count), the unpaid portion will be discharged
- Borrower may have to pay taxes on the amount that is discharged
- As of July 1, 2009, graduate and professional student Direct PLUS Loan borrowers are eligible to use the ICR plan
- Parent Direct PLUS Loan borrowers are not eligible for the ICR repayment plan



Income-Based Repayment (IBR)

- Income-Based Repayment is a plan created in 2007, for the major types of federal loans made *to students*
- Monthly payment is capped at an amount that is intended to be affordable based on **income** and **family size**
- Borrowers must demonstrate a partial financial hardship (PFH) to be eligible for IBR
 - A borrower has a PFH if the monthly repayment amount under IBR will be less than the monthly amount calculated under a 10-year standard repayment plan
- Loan forgiveness in 25 years



IBR – New Application Process

- FSA is creating an electronic IBR application with an IRS data retrieval function
- Purpose—to increase the efficiency and take-up rate of placing and maintaining borrowers on the IBR plan
- The online application will sit on StudentLoans.gov and utilize similar IRS data retrieval capability currently available for FAFSA on the WebSM



Know Your Entitlements



Know Your Entitlements

- Understand Entitlements
 - Deferments
 - Forbearances
 - Discharges
 - Forgiveness Programs
- Loan Consolidation



Deferments

Deferments allow a borrower to temporarily suspend or postpone their monthly payment in certain circumstances:

- In-School
- Graduated Fellowship or Rehabilitation Program
- Unemployment
- Economic Hardship
- Military
 - Active Duty
 - Post-Active Duty Student



In-school Deferment

- In-school deferments are unlimited for borrowers enrolled at least half-time
- There are special parent PLUS and post-enrollment PLUS deferments for PLUS loans first disbursed on/after 7/1/2008
- Students must keep their loan servicer informed of any changes in their enrollment status, so that loan information is up-to-date



In-school Deferment

- Enrollment changes occur when students:
 - Do not enroll at least half-time for the loan period certified by the school
 - Do not enroll at the school that certified their loan
 - Stop attending school or drop below half-time enrollment
 - Transfer from one school to another school
 - Graduate



In-school Deferment

A scheduled break in enrollment, such as the summer session at many traditional 4-year schools, is not considered an interruption in enrollment if the student is planning to return to school during the next regularly scheduled enrollment period.



Graduate Fellowship/Rehabilitation Training Program

- Applies to Direct Loans (under special circumstances), FFEL, and Federal Perkins Loans
- Granted for study in an approved graduate fellowship program or in an approved rehabilitation training program for the disabled



Unemployment Deferment

- Applicable for Direct Loans, FFEL, and Federal Perkins Loans
- Up to three years, usually in 6-month increments;
- Based on evidence of unemployment benefits or registering with employment agency
- Borrower must search for and accept full-time employment of any type



Economic Hardship Deferment

- Up to three years in 12-month increments if borrower is:
 - Receiving payment under federal or state public assistance program
 - Working full-time, but monthly income is not more than the federal minimum wage or 150% of HHS poverty guideline based on family size
 - Serving as Peace Corps volunteer



Economic Hardship Deferment

- Available for Direct, FFEL, or Federal Perkins Loans
- For PLUS loans and Unsubsidized Stafford Loans, only principal is deferred. Interest continues to accrue
- Borrowers must continue making payments until notified that the deferment is granted



Military Deferment

Active Duty

- Available to borrowers in the Direct, FFEL, and Perkins Loan programs
- Borrowers who are called to active duty or performing qualifying National Guard duty during a war or other military operation or national emergency
- If the borrower was serving on or after Oct. 1, 2007, deferment is available for an additional 180-day period following the demobilization date for the qualifying service



Military Deferment Post-Active Duty

- Available for Direct, FFEL, or Perkins Loan borrowers
- Must be a member of the National Guard or other reserve component of the U.S. Armed Forces (current or retired) and is called or ordered to active duty while enrolled at least half-time at an eligible school, or within six months of having been enrolled at least half-time
- Borrower is eligible for a deferment during the 13 months following the conclusion of the active duty service, or until the borrower returns to enrolled student status on at least a half-time basis, whichever is earlier



Forbearance

Forbearance is a temporary postponement or reduction of payments for a period of time due to certain circumstances.

- Borrowers can receive forbearance if they are not eligible for a deferment
- Unlike deferment, whether your loans are subsidized or unsubsidized, the borrower is responsible for all interest that accrues
- May be applied in intervals of up to 12 months at a time for up to 3 years
- Borrowers must apply with their loan servicer and **must** continue to make payments until they have been notified that the forbearance has been granted



Forbearance

May be requested:

- Based on poor health or other acceptable reason
- During medical internship or residency
- During National Community Service
- During teaching service eligible for Teacher Loan Forgiveness
- Up to three years during repayment if monthly payment is \geq to 20% of total monthly



Loan Forgiveness

Borrowers may qualify to have all or a portion of their loan forgiven under the following forgiveness programs:

- Teacher Loan Forgiveness
- Public Service Loan Forgiveness
- Service as Civil Legal Assistance Attorney



Teacher Loan Forgiveness

Teacher service. If the borrower is a new borrower* and a full-time teacher in a low-income elementary or secondary school for 5 consecutive years, they may be able to have as much as \$17,500 of their subsidized or unsubsidized loans cancelled. This provision is not available for borrowers of PLUS Loans.

*Borrowers are considered a new borrower if they did not have an outstanding balance on an FFEL or Direct Loan on Oct. 1, 1998, or on the date they obtained a FFEL or Direct Loan after Oct. 1, 1998.



Public Service Loan Forgiveness

In 2007, Congress created the Public Service Loan Forgiveness (PSLF) Program to encourage individuals to enter and continue to work full-time in public service jobs.

- Borrowers may qualify for forgiveness of the remaining Direct Loan balance after they have made 120 qualifying payments
- Only certain repayment plans qualify—works best with IBR and ICR
- Must be employed full time by certain public service employers while making the 120 payments.

More information is available at www.studentaid.ed.gov/publicservice



Loan Discharge

- Discharge or cancellation is the release of a borrower from their obligations to repay their student loans
 - Closed School
 - Unpaid Refund
 - False Certification
 - School-based
 - Identity Theft
 - Bankruptcy
 - Total and Permanent Disability
 - Death (including death of a dependent for parent PLUS loans)

PLUS



Consolidation Loans

A Consolidation Loan allows a borrower to consolidate (combine) multiple federal student loans into one loan. The result is a single monthly payment instead of multiple payments.





Loan Consolidation

- Most federal student loans are eligible for consolidation, including subsidized and unsubsidized Direct and FFEL Stafford Loans, Direct and FFEL PLUS Loans, Supplemental Loans for Students (SLS), Federal Perkins Loans, Federal Nursing Loans, Health Education Assistance Loans, and, in some cases, existing consolidation loans
- Private education loans are not eligible for consolidation



Loan Consolidation

If the borrower is in default, they must meet certain requirements before they can consolidate their loans.

Note: A PLUS Loan made to the parent of a dependent student cannot be transferred to the student through consolidation. Therefore, a student who is applying for loan consolidation cannot include his or her parent's PLUS Loan.



Loan Consolidation

Benefits of Consolidation:

- One Lender and One Monthly Payment
- Flexible Repayment Options
- Lower Monthly Payments
- Fixed Interest Rate for Life of Loan



What Students Should Know





NSLDS

National Student Loan Data System (NSLDS)—A centralized database that stores information on all Department loans and grants.

- Recommend students/borrowers become familiar with NSLDS - can access this information online using their Department of Education PIN at www.nsls.ed.gov
- Students can keep track of their loans through NSLDS and obtain their servicer's name and contact information



Know Your Servicer

- Servicers are assigned when a Direct loan is disbursed/booked
- Borrowers receive welcome letters from servicer within days of a loan being disbursed
- Servicer will communicate with borrowers throughout the loan life cycle
- A borrower's servicer is also listed on NSLDS
- Servicers offer resources on financial literacy (budgeting, credit tips, etc.)



Communication Channels for Borrowers

- All servicers have toll free numbers for borrowers to contact (phone, fax, and e-mail)
- All servicers have a dedicated staff to assist borrowers
- Use of IVR (integrated voice response) systems
 - Allow self service-for those that prefer
 - Make payments over the phone
 - Includes option to speak to a representative



Repayment Tips for Students

- Borrow only what is needed
- Contact lender or financial aid office if assistance or clarification is needed
- Keep all student loan documents in a file
- Open and read all incoming mail pertaining to student loans
- Keep in contact with your servicer
- Make all regularly scheduled payments
- Ask lender for help when experiencing difficulty making payments -- there are alternative options available

Don't Default

- Made commitment to invest in future.... Be responsible



Repayment Tips for Students

- Once in default, loans are transferred to a collection agency
- Student loan defaults are reported to consumer reporting agencies
- Students lose eligibility for Title IV aid and may lose eligibility for loan deferments
- Students in default may have their loan payments taken from federal or state income tax refunds



Tips for Students

- When students say : “I don’t need to borrow all this money” – be sure students know they don’t have to borrow all the ‘offered’ loan(s)
- Explain time frame and procedures for canceling/reducing a loan



Tips for Students: Recordkeeping

Create a file for:

- Financial aid award letters
- Loan counseling material
- Promissory notes
- Amount of student loans, disbursements, etc.
- Account numbers for each loan
- Name, address, phone number, and website of your loan servicer
- Loan disclosure statements/payment schedules
- Monthly payment stubs, if paying by check or print outs of your electronic payment
- Notes about any questions you ask about your loans, the answers, the date and the name of the person you spoke with
- Any deferment or forbearance paperwork
- Documentation that you paid your loan in full



Know the Details of a Loan

Students should know the details of their loan:

- Yearly and total amounts they can borrow
- Amount of their total debt (principal and estimated interest)
- Current interest rate and interest charges on their loans
- The date they start repayment
- Information on repayment plans and length of time to repay



Know About Capitalization

Capitalization adds unpaid interest to the loan amount borrowed, and

- increases the unpaid principal balance of the loan and interest is charged on the increased principal amount
- occurs at the end of a deferment, forbearance, or grace period on unsubsidized loans, and at the end of a forbearance period on any type of loan, subsidized or unsubsidized
- increases the total amount borrowers will repay over the life of your loan. To save money, pay interest before it is capitalized



Calculators

Repayment calculators are available for students to estimate their monthly payment amount under the different plans:

- Standard, Graduated, and Extended Plans
- Income Contingent Repayment Plan
- Income Based Repayment Plan
- Direct Consolidation Repayment Plan



Federal Servicer Contacts

- **Nelnet**
www.nelnet.com
1-888-486-4722
- **Great Lakes Educational Loan Services, Inc.**
www.mygreatlakes.org
1-800-236-4300
- **Sallie Mae**
www.salliemae.com
1-800-722-1300
- **FedLoan Servicing (PHEAA)**
www.myfedloan.org
1-800-699-2908
- **Direct Loan Servicing Center (ACS)**
www.myedaccount.com
1-800-848-0979
- **MOHELA**
www.mohela.com
1-888-866-4352
- **ESA/Edfinancial**
www.edfinancial.com/DL
1-855-337-6884
- **CornerStone**
www.MyCornerStoneLoan.org
1-800-663-1662
- **Aspire Resources Inc**
www.AspireResourcesInc.com
1-855-475-3335
- **Granite State - GSMR**
www.gsmr.org
1-888-556-0022



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