

Smart Ways to Repay

Student Loan Repayment and Loan Consolidation

November 2007

Quick Review: Direct Loan Terms

- Annual variable interest rate, capped at 8.25%
 - current rate*, through June 30, 2008:
 - in school, grace, deferment = 6.62%;
 - in repayment = 7.22%%
 - above rate changes each July 1
- New loans borrowed after 7/1/06 have a fixed rate of 6.8%
- Loans are either subsidized or unsubsidized
- 6-month grace period

Quick Review: Perkins Loan Terms

- Fixed 5% interest rate
- 9-month grace period
- No interest accrual during school or grace period (or during deferment) – subsidized
- Up to 10-year repayment period

What is Loan Consolidation?

A Federal Consolidation loan allows the borrower to combine one or more of their eligible federal education loans into one new loan – and can extend the repayment term, allowing lower monthly payments.

Lender issues new loan and pays off all of the loans put into the consolidation

- The individual, consolidated loans no longer exist
- Loans that have been consolidated cannot, in almost all cases, be unconsolidated
- New loan has a different interest rate and different payback terms

What Loans are Eligible?*

- Direct Loans
 - Subsidized and unsubsidized
- Perkins Loans
- Most Health and Human Services Loans
 - HPSL
 - Nursing – NSL, including LDS
 - HEAL
- Consolidation Loans – Direct**
- PLUS Loans – Direct
 - **Cannot** combine parent's loans with student's loans
- Private Loans
 - **Cannot** be consolidated in a federal consolidation loan

*See Federal Consolidation Application for a comprehensive listing of eligible loans.

**Subject to regulatory limitations for re-consolidation.

How Long is the Payback Period?

10 to 30 years to repay, depending on how much you owe.* Shorter payback is allowed – ask your lender for details.

Total Education Debt

Max Payback Period

Less than \$7,500

10 Years

\$7,500 to \$9,999.99

12 Years

\$10,000 to \$19,999.99

15 Years

\$20,000 to \$39,999.99

20 Years

\$40,000 to \$59,999.99

25 Years

\$60,000 or more

30 Years

*Including federal and private education loans not put in consolidation loan, up to the amount of the consolidation loan.

What is weighted average?

Consolidation

\$30,000
4.75%

Stafford

\$18,500
6.8%

Grad PLUS

\$13,000
8.5%

Perkins

\$4,000
5%

$$\$30,000 \times 0.0475 = \$1,425$$

$$\$18,500 \times 0.068 = \$1,258$$

$$\$13,000 \times 0.085 = \$1,105$$

$$\$4,000 \times 0.05 = \$200$$

$$\$65,500 = \$3,988$$

$$\$3,988 \div \$65,500 = 0.061$$

*6.1% rounded
up to the nearest
 $1/8\% = 6.125\%$

or 6.125%*

What Are the Repayment Options?

- There are four basic types of repayment plans from which you can choose for your Direct student loans, whether you consolidate or not.
- There are advantages and disadvantages to each repayment option
 - Standard – equal payments over the life of the loan
 - Graduated – tiered payments over the life of the loan
 - Extended – if eligible
 - Income Contingent – tied to income, payment reset annually
- The repayment option you choose will impact the amount of time it takes to repay your loan, the size of your monthly payment, and your overall interest costs

Should You Consolidate?

- That depends on your objectives
- Consolidation is a debt-management tool that can:
 - Reduce your monthly payment
 - Simplify check-writing chores
 - Establish a fixed interest rate
 - Some may have consolidated already via early repayment consolidation
 - Federal student loan advantages are retained
 - Deferment
 - Forbearance
 - Interest subsidy (subsidized portion)
 - Loan forgiveness (portion of consolidation loan comprised of Direct loans)

Repayment and Interest Comparison*

Initial Repayment Balance	Standard Repayment Plan Not Consolidating			Standard Repayment Plan Consolidation		
	Payback Period	Monthly Payment	Total Repayment Amount	Payback Period	Monthly Payment	Total Repayment Amount
\$10,000	10 years	\$117	\$14,069	15 years	\$88	\$15,804
\$20,000	10 years	\$234	\$28,139	20 years	\$151	\$36,142
\$40,000	10 years	\$469	\$56,278	25 years	\$273	\$81,965
\$60,000	10 years	\$703	\$84,417	30 years	\$384	\$138,307
\$100,000	10 years	\$1,172	\$140,695	30 years	\$640	\$230,512
\$125,000	10 years	\$1,466	\$175,868	30 years	\$800	\$288,140
\$150,000	10 years	\$1,759	\$211,042	30 years	\$960	\$345,768
\$175,000	10 years	\$2,052	\$246,216	30 years	\$1,121	\$403,396
\$200,000	10 years	\$2,345	\$281,389	30 years	\$1,281	\$461,024

What's Best for You?

- This seminar will take you through a simple, six step process that will help you determine if consolidation is the best option for you
 1. Identify your education loan situation
 2. Know when to consolidate
 3. Decide which loans to consolidate
 4. Identify your lender options
 5. Understand your repayment options
 6. Select an application process



Identify Your Education Loan Situation

- What types of education loans do you have?
- What federal program are your loans issued under?
 - Federal Direct Lending Program (FDLP)
- How many loans do you have?
- How much did you borrow?

Identify Your Education Loan Situation

- Do you have all of this information at your finger tips?
- Where can you get it?
 - National Student Loan Data Systems (NSLDS)
www.nslds.ed.gov
- Your lender/servicer's website
 - www.dl.ed.gov

Direct Loan Servicer

- For questions about your Direct Lending loans:
- General Servicing Questions (non-consolidation), including repayment calculators:
 - (800) 848-0979 or
 - www.dl.ed.gov
- For specific consolidation information, including consolidation calculators:
 - 800-557-7392
 - <http://www.loanconsolidation.ed.gov/>

Know When to Consolidate

- Federal regulations determine when a borrower may consolidate in the federal consolidation program.
- Once you know when you can consolidate, you'll need to know when you can get the lowest possible interest rate. This is determined by the interest rates on the loans you are consolidating.
- These factors will determine what your fixed rate will be and how much you will pay in total interest.

Know When to Consolidate

- Direct Loan interest rates* are variable on loan disbursed *before July 1, 2006* and will be reset every year on July 1st.
 - The rate is based on the Treasury Bill (T-bill) auction and usually causes the interest rate to go up or down
 - Direct loans have a lower interest rate while the loan is in an in-school, grace, or deferment status*
 - The interest rate goes up .60% when the loan is in a repayment or forbearance status
 - Since the final fixed rate on a consolidation loan is determined when the loan is consolidated, you will want to consolidate when the rates are the lowest!

Know When to Consolidate

- Eligibility is based on borrower and loan status
- FDLP subsidized and unsubsidized loans
 - Anytime during the post-school, six-month grace period
 - Anytime during repayment
 - During a period of deferment or forbearance
- In-school consolidation option terminated for all borrowers July 1, 2006

Decide Which Loans to Consolidate

- You can consolidate all of your eligible federal student loans or just some of them
 - Some loans may have existing benefits that may be lost if they are consolidated
 - For example, Perkins loans lose loan forgiveness benefits when they are consolidated
 - Some loans may have interest rates that would influence the final fixed rate in such a way that it would be better to leave them out of the consolidation

Decide Which Loans to Consolidate

- Once consolidated, Perkins, HPSL, LDS, and Federal Nursing loans lose their interest subsidy during a period of authorized deferment
- Perkins loans lose Perkins-specific deferment options when they are consolidated
- You may exclude these loans from consolidation until you no longer need deferment subsidy
- Federal rules allow you to reconsolidate your consolidation loans with your Perkins loans, etc., at a later date

Postponing Repayment - Deferment

- A period of time during repayment in which the borrower, upon meeting certain conditions, is not required to make payments of loan principal
 - Government pays the interest on the subsidized portion of the consolidation loan
 - Most frequently used deferments
 - In-school
 - Unemployment
 - Economic Hardship
 - Medical students may qualify for this deferment during residency programs

Postponing Repayment - Forbearance

- A period of time during which the borrower is permitted to temporarily cease making payments or reduce the amount of the payments
 - The borrower is responsible for the interest that accrues on the loan during the forbearance period
 - Most forbearances are granted at the discretion of the lender; some forbearances are entitlements for eligible borrowers

Loan Forgiveness

- Portions of your loans may be forgiven if specific conditions are met
 - For new borrowers since October 1998, available for certain mathematics, science, and special education teachers, forgiveness as much as \$17,500
 - To qualify, you must have been employed as a full-time teacher for five consecutive complete academic years in an elementary or secondary school that has been designated as a "low-income" school by the U.S. Department of Education
 - Complete information available at www.studentaid.ed.gov

Is Consolidation Right for You?

- This question is best asked by reviewing your loan portfolio
 - Do you have loans you can pay off without consolidating?
 - Avoid extra interest cost
 - Avoid a potentially higher interest rate
 - Do you have loans for which you can earn a benefit before consolidating?
 - Do any of your loans offer a principal rebate or credit that you can earn up front?
 - Need to determine the “cash value” of the benefits on those loans before deciding to consolidate
 - **Borrowers may delay consolidation to take advantage of underlying loan benefits**

Selecting a Lender

- Borrowers should shop carefully when selecting a consolidation lender
 - Can choose any eligible lender
 - Current lender (e.g., Direct Loan Servicer) is often a good place to begin
 - Should look for lenders who have substantial experience in the student loan program
 - Most borrowers will not only need a quick consolidation application process, but will also want good customer service in the future for assistance with repayment plans, deferments, forbearances, and making payments
 - Look for desired services and options

Selecting a Lender

- Borrowers should also consider:
 - Repayment can be a long-term relationship
 - Many, if not most, borrowers cannot reconsolidate under current rules
 - Many consolidation marketers are not lenders
 - Will want to verify who the lender/loan holder and loan servicer will actually be and whether this is likely to change
 - Borrower benefits that look too good to be true often are – need to read the fine print

Comparing Borrower Benefits

- Two main types of lender-specific benefits:
 - Interest rate reductions or principal rebates
 - Rebates may be “cash-back” or principal reductions
 - Rebates may be based on original balance or on outstanding balance at the time you earn the benefit
- Expect qualification criteria for any benefit offered
 - e.g., sign-up for certain products or services, minimum balance requirement, series of on-time payments
- Compare different benefit offerings carefully
 - Evaluate only those benefits you are certain to earn!
 - Be realistic about your personal payment habits, financial goals, and intended use of products or services
 - Understand how to qualify and be disqualified
 - Determine the “value” of the benefit being offered

Select an Application Process

- Gather all of your information
- Carefully complete the application
 - Online or paper
- Submit application in a timely manner
 - Take advantage of lowest rates
- Monitor progress
- If already in repayment, continue to make payments until loan is disbursed

What's Best for You?

If you already have a consolidation loan, you can:

- Consolidate existing consolidation loan with new Direct loans
 - New rate and term
 - Most convenient option; one loan, one payment
- Consolidate just the new Direct loans
 - Will have two separate consolidation loans, probably with different interest rates and possibly with different repayment terms
- Keep loans separate
 - Existing consolidation loan goes into repayment immediately
 - Stafford loans go into repayment after grace
- Run your loan portfolio on repayment calculators to determine your best option

Private Loan Consolidation

Consider carefully whether consolidation is appropriate for your private education loans

- **Federal Direct Consolidation: Private loans cannot be included, Federal loans can be included**
- **Private Consolidation: Both private and federal loans *can be* included**
 - HOWEVER: Federal loans included in a private consolidation will lose all of their federal benefits
- **Some form of credit worthiness is almost always required for a private consolidation loan**
 - Baseline credit score and/or minimum salary
 - Co-signer may be required

Private Loan Consolidation

- Department of Education regulations do not apply to private consolidations loans
 - **Benefits of the federal consolidation program not available**
 - Postponement options may be limited, if available at all
 - Interest is not mandated by federal student loan regulations
 - For example, can be a variable rate changing monthly
 - Usually is higher than federal consolidation interest rate
- Application fees and other fees may apply
 - **Carefully review the total overall costs, including what the new interest rate will be**
 - Existing private education loans may have lower rates