



National Student Loan Program

Principles of Loan Repayment

How will I repay my student loan? Money Management Options.

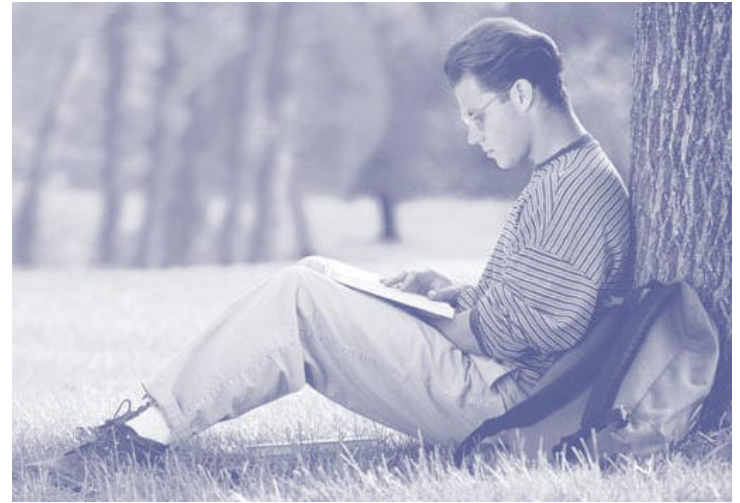
*Presented by Todd Woodlee
National Student Loan Program*

Why we are here

- Answer questions about your student loan debt
- Discuss players and terms and conditions of student loan
- Give you strategies for managing your student loan debt in/out of school
- Money Management tips and web resources

Your Student Loan Team

- School – provides education
- Lender – makes the loan
- Servicer – manages loan for your lender
- Secondary market – buys loan from your lender
- Guarantee agency (NSLP) – insures loan for your lender



Your Loan May be Sold

- Your lender may sell your loan to another lender or use a servicer to manage your account
- Your lender must notify you of the new lender or servicer's name, address, phone number
- If you have multiple lenders, you may request that one lender purchase all your loans so you can make one payment to one lender and keep your original loan terms

Borrowing a Stafford Loan



- Subsidized Stafford
 - need based
 - government pays interest while in school, grace or deferment periods
- Unsubsidized Stafford
 - non-need based
 - borrower pays all interest
 - interest is added (capitalized) to principal balance when repayment begins

Subsidized Loans

- Federal Stafford
- Federal Perkins
- Primary Care Loans (PCL)
- Loans for Disadvantaged Students (LDS)
- Some Institutional Loans

Unsubsidized Loans

- Federal Unsubsidized Stafford
- Private Loans
- Some Institutional Loans

Repayment tip #1

- Pay interest on your unsubsidized Stafford loan before it is added to your loan (capitalized) to avoid paying interest on interest

Estimate interest capitalization on your loan

FinAid! calculator at

www.finaid.org/calculators/interestcap.phtml

Interest Rate



- Variable rate with 8.25 % cap, adjusted annually on July 1

- Two different interest rates:

3.46% during in-school, grace and deferment for 2002-03 (91 Day T-Bill + 1.7%)

4.06% during repayment for 2002-03 (91 Day T-Bill + 2.3%)

T-Bill Rate:

<http://www.publicdebt.treas.gov/AI/OFBills>

Repayment

- Begins six months after you leave school or drop to less than half-time study
- Typical repayment is 10 years with \$50 minimum monthly payment
- You may prepay all or part of loan without penalty
- You have a choice of four repayment plans and can change your plan annually

Repayment Plan Options

■ Standard

- equal payments of at least \$50 for up to 10 years

■ Graduated

- begins with lower payment which gradually increases over 10 years

■ Income-Sensitive

- payment adjusted annually over 10 years based on income and student loan debt

■ Extended

- extends payment to 25 years if student loan debt over \$30,000 and first loan borrowed after 10/7/98

Sample loan repayments

Standard Repayment Option – 10 year repayment

Loan	Payment	Interest	Total Payments
\$ 15,000	\$ 184	\$ 7,075	\$ 22,075
23,000	282	10,859	33,859
30,000	368	14,150	44,150
46,000	564	21,718	67,718
60,000	736	28,299	88,299
100,000	1,227	47,144	147,144
138,500	1,700	65,256	203,756

Payment amounts based on 8.25% maximum interest rate

Repayment tip #2

- Know how much you are borrowing and how much you can afford to repay based on your potential income
- The average medical school debt for Public Institution Med Student Class of 2002 was **\$91,389** with monthly payments of **\$928**

Web Resources

- **Occupational Outlook Handbook Salary Information**

<http://stats.bls.gov/oco/home.htm>

- **Mapping Your Future Debt/Salary Wizard**

www.mapping-your-future.org/apps/debtwizard/index.cfm

Repayment tip #2

- Find your education loan balances at www.nslds.ed.gov
- Calculate what you can afford to borrow using Mapping Your Future's Debt/Salary Wizard
www.mapping-your-future.org/apps/debtwizard/index.cfm

Repayment tip #3

- Keep track of your lender and notify your lender of any changes or if you have difficulty with payments
- Know your student loan repayment options

Find *Repayment Assistance* on NSLP's website at www.nslp.org/repay.htm

Repayment tip #4

- Use automatic debit to make your payments on time
- Take advantage of benefits and repayment incentives offered by your lender
 - Discounts for automatic debit of payments
 - Fee rebates and reductions
 - Interest rate reductions for on-time payments

Your Guide to Repaying Your Loan

- Borrow only what you need and can afford to repay
- Your lender will provide you with a disclosure with loan amount, payment amount and due date



Estimate your payments using the *Mapping Your Future Student Loan Repayment Calculator* at www.mapping-your-future.org/features/loancalc.htm

Repayment tip #5

- When possible, pay more than minimum monthly payment to reduce interest cost
- If you have difficulty repaying your loan contact your lender about:
 - changing your repayment plan to lower your monthly payment
 - getting a deferment or forbearance
 - consolidating your student loans

Budget before you borrow

- Estimate your monthly earnings
- Budget
 - pay yourself first, save 10% of your take home
 - student loan payments
 - living expenses



Use the EducationQuest Foundation
Budget Calculator at
www.educationquest.org/calc.asp

Web Resources for Budgeting

- Money Matters for Students

www.smartcredittips.com/budg.html



- CNN Money

<http://cgi.money.cnn.com/tools/>

Can you afford your future expenses?

\$ 4,166 Joe's monthly salary

\$ 100,000 Student loan debt

\$ 10,000 Credit card debt

Joe's Monthly Expenses:

\$ 800 Housing/Utilities

\$ 400 Car expenses

\$ 400 Food

\$ 650 Taxes (federal, state, FICA)

\$ 300 Personal

\$ 1,282 Student loan payment

\$ 300 Minimum credit card payment

\$ 130 Savings

\$ 4,262 Joe's Total Monthly Expenses

Deferment

- Delays repayment for a period of time if you are:
 - attending school at least half-time
 - unemployed, but looking for a job
 - experiencing an economic hardship
- No interest is due on subsidized loans
- Contact your lender for information

Economic Hardship Deferment

- Debt burden is equal to or greater than 20% of monthly income (monthly gross or 1/12 of AGI)
- Wages don't exceed minimum wage or poverty level
- Peace Corp Volunteer
- Est. \$37,383 for \$92,000 of debt

Forbearance



- Delays or reduces your payments if you have a financial hardship
- Interest continues to accrue on the loan
- Contact your lender for information

Repayment tip #6

- If you're eligible, apply for a deferment, but make interest and principal payments when possible

Find deferment and forbearance information at
Mapping Your Future

www.mapping-your-future.org/payment/defernav.htm

Calculate interest cost at FinAid!

www.finaid.org/calculators/interestcap.phtml

Consolidation



- Lets you combine different types of loans, and loans with different interest rates and lenders
- You must be in the grace period or repaying your loan
- You can repay over 10 to 30 years, depending on loan balance

Consolidation

- Fixed interest rate = weighted average interest rate, rounded up to the nearest 1/8%
- Maximum rate is 8.25%
- Standard, graduated, income-sensitive or extended repayment plans
- Contact lender to apply

Consolidation Pros & Cons

Pros

- May have lower fixed interest rate
- No fees, credit checks or prepayment penalties
- One payment, one lender
- Lower monthly payment

Cons

- Lose grace period if consolidate during grace
- Pay more total interest
- May lose some borrower benefits
- Combining loans with spouse may have consequences

Consolidation Example

Loan 1

Stafford \$18,500

Loan 2

Stafford \$18,500

Loan 3

Stafford \$18,500

Loan 4

Stafford \$18,500

Combined Monthly Payment **\$751**

Consolidation Loan

\$74,000 30 years

New Monthly Payment **\$359**

Use *Consolidation Calculator* at www.educationquest.org

Taxpayer Relief Information

- Interest deduction: 2002, income up to \$65,000 (\$130,000 married) may deduct up to \$2,500 in student loan interest payments
- Lifetime Learning Tax Credit: up to a \$1,000 credit for tuition expenses
- Consult Tax advisor for details

Delinquency and Default

- **Delinquent** – 1 to 269 days late on payment

Borrower typically reported to credit bureau after 30 days late

- **Default** – 270 days late on payment

Consequences of Default



- You will lose federal or state income tax refunds and other federal or state payments
- You lose eligibility for other student aid and most federal benefit programs
- You will lose eligibility for student loan deferments
- Legal action can be taken

Consequences of Default

- You may lose your professional license
- Interest rate on your loan may increase
- The default is reported to national credit bureaus and your credit rating may be damaged
- Your wages may be garnished
- Collection charges and attorneys fees can be assessed on your loan

Your Rights & Responsibilities

- Your loan must be used only for educational purposes
- Your lender must provide a disclosure before loan is made, and when your loan must be repaid
- You are entitled to a copy of the promissory note before loan is made
- You must notify your lender if you:
 - leave school, drop to less than half-time enrollment or change schools
 - change your name, address, phone number, SSN, references, driver's license number and state that issued driver's license

Your Rights & Responsibilities

- Before leaving school, you must notify your lender of:
 - your permanent address
 - name and address of your expected employer, if known
 - address of your next of kin
- You must repay your loan, plus interest, even if you don't finish school, are dissatisfied with your education, or can't find a job
- Deferment or forbearance may be available
- You can prepay your loan at any time without penalty

Repayment tip #7

- Know your rights and responsibilities
- Read the fine print, keep copies of loan papers
- Beware of marketing jargon like “smart loan” or “save 53% now.” If it sounds too good to be true...
- Weigh the short-term and long-term ramifications and costs

Debt management tips

- Don't borrow more than you need
- Get a part-time job during college
- Use credit cards only for emergencies and pay off the balance each month

To find information about your loan

- National Student Loan Data System

www.nslds.ed.gov or 800-4-FED-AID

Web Resources

- **Occupational Outlook Handbook Salary Information**
<http://stats.bls.gov/oco/home.htm>
- **Mapping Your Future Debt/Salary Wizard**
www.mapping-your-future.org/apps/debtwizard/index.cfm
- **Money Matters for Students Budgeting Tool**
www.smartcredittips.com/budg.html

Web Resources

- **VISA Practical Money Skills**

www.practicalmoneyskills.com

- **Money Management Advice**

www.debtadvice.org

- **Bankrate.com Money Management Advice**

www.bankrate.com

Web Resources

- **EducationQuest Foundation Calculators**
www.educationquest.org/calc.asp
- **NSLP Financial Management Tools**
www.nslp.org/fmantool.htm
- **Debt Management Help for Med Students/Residents**
www.aamc.org/debthelp

Student Loan Ombudsman

If you are unable to resolve disputes with your school, lender, servicer or guarantor

Department of Education

www.ombudsman.ed.gov

877-557-2575

Use Credit Cards Wisely

- Don't charge more than you can pay off when the bill comes
- Pay your bill before the due date
- Pay more than the minimum amount
- Avoid buying things you don't need



The numbers speak for themselves...

If you have a **\$3,000** credit card balance with an 18 - 20% interest rate and pay only the minimum 3% monthly payment it will take **15 years** to pay it off!

Over 15 years, you'll pay **double** the initial amount.

Maintaining Good Credit

- Pay all bills on time/early
- Notify creditors of changes
- Limit number/use of credit cards
- Limit amount of available credit
- Review Credit Report annually

Good Credit cont.

- Have no more than 3 Credit Cards
- Don't owe more than 30% on your available credit

What is a credit report?

- Summary of your credit accounts and how well you manage them.
- A Credit "Transcript"
- Willingness to pay

What's in a credit report?

- Demographical Information: Address and employer information
- 7 years of Payment Performance
- Type of debt
- Available credit and current balances
- Inquiries

What's a credit score?

- Numerical forecast of the likelihood you'll default on future loan
- Based on credit history
- Credit "GPA"
- Developed by Fair, Isaac, Inc. (FICO)

Who uses credit scores?

- Lenders
- Prospective employers
- Landlords
- Insurance Companies

What factors affect your credit score?

- Payment history (35%)
- Amount owed (30%)
- Length of credit history (15%)
- New Credit (10%)
- Types of credit, mix (10%)

Sound financial advice...

Don't live like a physician while you're a student, so you don't have to live like a student when you're a physician!

-- American Association of Medical Colleges

www.aamc.org/students/medstudents/start.htm

Education...

....is when you read the fine print.

Experience...

....is what you get if you don't.

-- Pete Seeger