Loan Repayment Strategy Session

California College of the Arts
Spring 2012

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Overview of Loans
## Subsidized (FFEL or Direct) Loans

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest Rate (Undergraduate)</th>
<th>Interest Rate (Graduate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-2008</td>
<td>6.8%</td>
<td>6.8%</td>
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<tr>
<td>2008-2009</td>
<td>6.0%</td>
<td>6.8%</td>
</tr>
<tr>
<td>2009-2010</td>
<td>5.6%</td>
<td>6.8%</td>
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<tr>
<td>2010-2011</td>
<td>4.5%</td>
<td>6.8%</td>
</tr>
<tr>
<td>2011-2012</td>
<td>3.4%</td>
<td>6.8%</td>
</tr>
<tr>
<td>2012-2013</td>
<td>6.8%*</td>
<td>6.8%</td>
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</tbody>
</table>
Subsidized (FFEL or Direct) Loans

- Interest capitalization - none
- Grace Period - 6 months after graduation or dropping below half-time enrollment
- Standard Repayment - 10 years
Unsubsidized 
(FFEL or Direct) Loans

- Interest Rates - 6.8% Fixed (since 2007-08)
- Interest capitalization - 30 days before start of repayment
- Grace Period - 6 months after graduation or dropping below half-time enrollment
- Standard Repayment - 10 years
Perkins Loans
(From CCA)

- Interest Rate - 5% Fixed
- Interest capitalization - none
- Grade Period - 9 months after graduation or dropping below half-time enrollment
- Standard Repayment - 10 years
Graduate PLUS Loans

- Interest Rates - 7.9% (8.5% under FFEL Loans)
- Interest capitalization - 30 days before start of repayment
- Grace Period - 6 months after graduation or dropping below half-time enrollment
- Standard Repayment - 10 years
Private Loans

- **Interest Rates** - variable (usually based on Prime/LIBOR + a margin)
  - Check your lender and your Promissory Note that you signed with the lender
  - Look for Prime/LIBOR +/- X.X% (ex. Prime + 2.5%)
  - This would mean Prime currently at 3.25% + margin of 2.5% = 5.75%
- **Interest capitalization** - usually before starting repayment
- **Grace Period** - often 6 months, sometimes 30-60 days, sometimes 9 months. Check your Promissory Note.
- **Standard Repayment** - sometimes 10 years, often different. Check your Promissory Note.
Loan Repayment Plans
Standard Repayment

- 10 Years (120 payments)
- Same payment each month
- Minimum payment of $50.00 per month
Graduated Repayment

- Your payments start lower and increase (usually every 2 years)
- Repayment is still over 10 years
- Good for graduates who have relatively small incomes that you anticipate increasing in the future
- You pay more interest than with the standard repayment plan
Extended Repayment

- If you have over 30,000 in FFEL or Direct Loans you can choose this plan.
- If you only have 30,000 in FFEL and less in Direct you can only choose it for the FFEL loans and vice versa.
- You can pick a standard or graduated repayment plan over 25 years.
- You will play more interest than under the standard or the graduates plans.
Income-Based Repayment (IBR)

- Repayment is based on your income and your family size.
- You can qualify for this program only if your payment would be lower under IBR than the standard repayment.
- If you repay under this program for 25 years, you can have your remaining loan balance forgiven.
- If you work for government/non-profits and repay under this plan for 10 years, you can have your remaining loan balance forgiven.
- Works for graduates with high loan balances and lower incomes.
- You could certainly still pay more interest under this plan, including having your balance grow over time.
Income-Sensitive and Income-Contingent Repayment

- Both plans are rarely used (will talk about this later in the presentation)
- One program is for FFEL loans and the other is for Direct Loans
- Repayment is based on a graduate's annual income
- Repayment is over 25 years and the remaining balance is forgiven
- You may pay more interest under this plan
Income-Contingent Repayment Changes Coming

<table>
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<tr>
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<th>Current IBR</th>
<th>2014 IBR</th>
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<tbody>
<tr>
<td>Max Annual Payment of Discretionary Income</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>Remaining Balance Forgiven After</td>
<td>25 Years</td>
<td>20 Years</td>
</tr>
</tbody>
</table>

Move the 2014 change up to this year using Income-Contingent Repayment (still pending)
Deferment

- Enrolled at least half-time at an eligible postsecondary school
- Study in an approved graduate fellowship (or in an approved rehabilitation training program for the disabled)
- Unable to find full-time employment (up to three years)
- Economic hardship - loss of job, unemployment (up to three years)
- Member of the National Guard called to active duty
- Active Duty service member during a war or other military operation
- The Department of Education will pay interest on subsidized loans during times of deferment
- You need to apply to your lender/servicer
Forbearance

- Financial Hardship or illness (but not limited to these)
- You are still responsible for the interest during times of forbearance
- You need to apply to your lender/servicer
Action Plan
Gather Information

- First Place to Start - NSLDS (all federal loans)
  www.nslds.ed.gov

- Go through your records
  - Look at your old award letters
  - Don't have a year, email/come to the financial aid office, we will give you a copy
  - Check your documents for any private loans (school certified/non-school certified)
Make sure you have this information

- Type of loan
- Amount Borrowed
- Interest Rate
- Current Payment Amount (and when due)
- Who the lender is
- Who the servicer is and their contact number/website/login information
Gather all of your loans in one place

- Piece of Paper
- Spreadsheet
- Mint.com
- SimpleTuition – PayBackSmarter (paybacksmarter.com)
- Finaid.org
Math time

- Add up all of the monthly loan payments
- The question is can you pay this amount?
Answer = Yes

- If the answer is Yes consider if you can pay the loans down more quickly

- Things to consider
  - No Prepayment Penalty
  - Interest rates compared to other debt or investments
  - Loan interest rates on student loans, you might consider
    - Retirement accounts
    - Paying down other higher interest loans

- But know that if life comes up, you still have options to reduce your payment or temporarily put it on hold
Answer = No

- Is the problem of making the payment temporary?
  - Deferment
  - Forbearance

- Is the making payments at that amount going to be a longer term need?
Longer Term Solutions

- Standard Repayment
- Extended Repayment
- Graduated Repayment
- Income-Based Repayment
- Income-Contingent Repayment (Direct and changing)
- Income-Sensitive Repayment (FFEL)
Special Considerations

- Consolidation Loans
  - Federal Direct Loan
  - Private Loan Consolidation
  - Special Direct Loan Consolidation
Special Direct Loan Consolidation

Between January 17, 2012 and June 30, 2012

- At least one federal loan in FFEL (bank or lender owned) and one federal loan in Direct (Department of Education)
- 0.25% interest rate reduction on the FFEL
- 0.25% interest rate reduction for signing up for EFT (auto-debt)
- Students who qualify will/have received an email from their servicer
- Application is through StudentLoans.gov and not through Direct Loan Consolidation website
Loan Discharge for Death and Disability

- Let your partner, spouse, parent, etc know about this
- You Die
- You become totally and permanently disabled and meet certain additional requirements
- Your loan is discharged in bankruptcy (extremely rare)
- A few other circumstances that involve fraud
Loan Forgiveness Programs

- Teacher Loan Forgiveness Program
- Public Service Loan Forgiveness Program
  - Great program in you plan to go into government or non-profit work
  - Can have your loan balance forgiven after 10 years
  - Requires all loans to be in the Direct Loan Program and be on the Income-based repayment Plan
Defaulting

- Very, very, very bad
- Hurts your credit, makes you ineligible for any future financial aid
- They will withhold your federal and state tax refund
- They may garnish a portion of your wages
- Cannot get some jobs (state, federal, jobs that require a credit check, or in the financial aid office)
- Hurts future CCA students
This can be stressful – it is money, yes it is stressful.

You are not alone.

You have resources:
- Servicers/Department of Education
- Financial Aid Office
- Ombudsman's Office
Important!
You Need to Complete Exit Loan Counseling if you are graduating Spring 2012

www.nslds.ed.gov
Our Information

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Handouts and Business Cards
Questions?