


2011 Access Group Graduate and Professional Financial Aid Conference



Shifting Sands
Discovering the Foundation

Income-Based Repayment & Public Service Loan Forgiveness


Understanding the Foundation




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Agenda

- Portfolio Management Challenges
- IBR vs. ICR Repayment
- Public Service Loan Forgiveness
- Strategies to Repayment Counseling
- Case Studies







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Portfolio Management Challenges


A Complex Web




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Challenge #1 Portfolio Mix


- Loan Types
 - Sub & Unsub Stafford
 - Grad Plus Loans
 - Consolidation Loan
- Loan Programs
 - FFELP
 - Direct Loan




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Challenge #2 Confusing Loan Terms


- Consolidation loans
 - Loan terms not identical to Stafford or Grad Plus
 - New Special Consolidation Program
- Stafford loans
 - Varying interest rates
 - Varying fixed rates for UG Sub Stafford different from UG Unsub and Grad sub & Unsub Stafford
- Grad Plus loans
 - FFEL and DL interest rates are different
 - Grad Plus after July 1.2008 eligible for automatic six-month post enrollment deferment




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Challenge #3 Who Holds/Owns Loans


- FFEL Loans
 - Loans still held by originating lender
 - Loans sold by originating lender to PUT Program
 - Lenders using a third party to service loans
 - Lenders exiting FFEL program
 - All new loans are now DL
- Direct Loans
 - Multiple Servicers



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Challenge #4 Additional Loans

- Other Federal Loans
 - Perkins
 - Loans for Health Professions
- Private Student Loans




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Challenge #5 – Rising Debt Levels

- Law Student Debt Statistics
 - \$69,687 – Average public school debt for 2010
 - \$106,248 – Average private school debt for 2010
 - \$18,472 – Average public school tuition/fees for 2009
 - \$35,742 – Average private school tuition/fees for 2009

Source: American Bar Association
- In general, salaries have not risen to accommodate these debt levels




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Challenge #5 – Rising Debt Levels

- Medical Student Debt Statistics
 - \$162,000 – Median debt for class of 2011
 - 86% percent of graduates borrow student loans
 - 78% percent of graduates have debt of at least \$100K
 - 59% percent of graduates have debt of at least \$150K

Source: Association of American Medical Colleges
- In general, salaries have not risen to accommodate these debt levels



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Repayment transition slide



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Comparison of Repayment Plans

Options	Payment Structure	Maximum Payment Period	Additional Features
Standard	Fixed	10 years	- Highest initial payment - Lowest total interest - No negative amortization
Graduated	Tiered	10 years	- Interest only payments initially - Payments increase incrementally - No negative amortization - Monthly payments can't be more than three times greater than any other payment ("3 times rule")
Extended	Fixed or tiered	25 years	- Lowest initial payment without considering income - No negative amortization - To qualify in FDLP: - FDLP debt must be > \$30,000 - New FDLP borrower 2/10/798 - No negative amortization
Income Contingent (ICR)	Adjusted annually based on: - Household AGI - Household size - Total amount of Direct Loans	25 years	- Monthly payment is lesser of: - Amt. needed to repay loan in 12 yrs multiplied by income % factor that varies with your AGI, or - 20% of monthly "discretionary" income - Payment re-evaluated annually - Negative amortization allowed
Income Based (IBR)	Adjusted annually based on: - Household AGI - Household size - Poverty guideline - State of residence	25 years	- Payment is 15% of "disposable" income if experiencing "partial financial hardship" at time you request IBR - Eligibility/payment amount re-evaluated annually - Negative amortization allowed

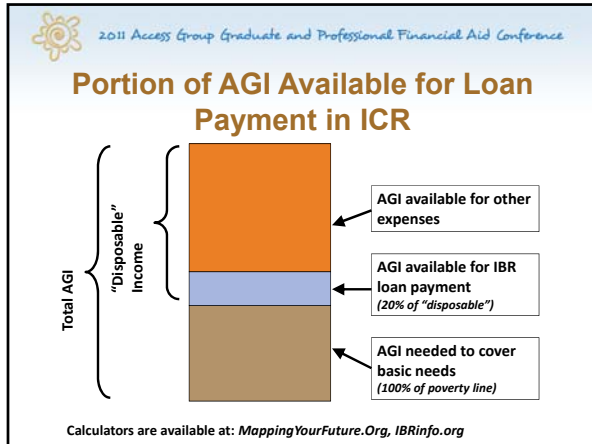
For more information about these plans, visit: StudentLoans.gov

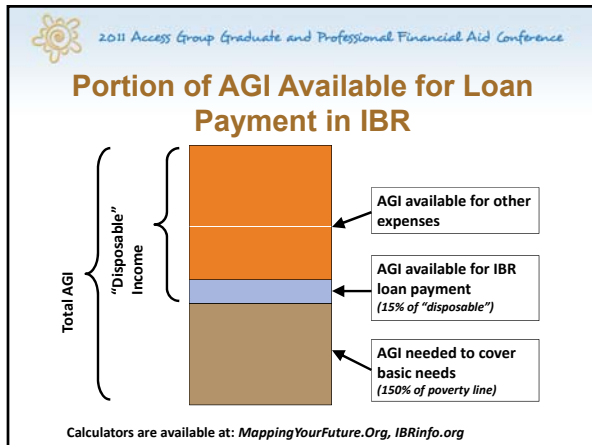
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IBR and ICR Repayment Plans

- Allows qualified borrowers to make more affordable payments
- Ties monthly loan payment to income
 - Re-evaluated annually
- Forgiveness options
 - May be taxable







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Comparing Payment Plans

Monthly payment for IBR, ICR & Extended:

\$50,000 AGI
 \$40,000 eligible loans @ 6.8% = Standard payment of \$460

IBR Payment:	ICR payment:	Extended:
Family of 1 = \$421	\$407	\$278
Family of 2 = \$349	\$407	\$278
Family of 3 = \$278	\$407	\$278

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Accounting for Foundations


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Comparing Payment Plans

Monthly payment for IBR, ICR & Extended:

\$75,000 AGI
 \$125,000 eligible loans @6.8% = Standard payment of \$1,439

IBR Payment:	ICR payment:	Extended:
Family of 1 = \$733	\$1,069	\$868
Family of 2 = \$662	\$1,005	\$868
Family of 3 = \$590	\$941	\$868




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Comparing Payment Plans

Monthly payment for IBR, ICR & Extended:

\$175,000 AGI
 \$200,000 eligible loans @6.8% = Standard payment of \$2,302

IBR Payment:	ICR payment:	Extended:
Family of 1 = \$1,983	\$2,735	\$1,388
Family of 2 = \$1,912	\$2,672	\$1,388
Family of 3 = \$1,840	\$2,608	\$1,388



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IBR Plan

- Once in IBR plan, monthly payment is lesser of:
 - 10 year amortized payment
 - "Partial Financial Hardship" amount
- Monthly payment can be less than accrued interest
(it allows for negative amortization)
- Unpaid interest accruing on subsidized Stafford debt is subsidized for up to first 3 years in IBR plan
- IBR repayment period can extend beyond 10 years
- Loan cancellation will occur after 25 years in IBR





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“Breaking News” Changes Coming to IBR in 2012

“President Obama’s Student Loan Plan”


- With respect to any eligible loan made to a borrower on or after ??????:
 - Reduces percentage of discretionary income used for IBR payment from current 15% to 10%
 - Loan forgiveness will occur after 20 years rather than the current 25 years of being “economically challenged”




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IBR A Few Things to Consider


- Can reduce minimum monthly payment
- Will increase total cost of debt
- Does not replace Income Sensitive or Income Contingent Repayment options
- Extended Repayment – is an option that avoids negative amortization and annual income verification



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Loan Forgiveness for Public Service Employees (PSLF)





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Public Service Loan Forgiveness Direct Loan Forgiveness Program

Borrower will qualify for loan forgiveness if ...


- Federal Direct Loans are not in default, and
- Worked full-time for a total of 120 months in a qualifying public service position on or after October 1, 2007, and
- Made 120 qualifying loan payments on Federal Direct Loans during period of qualifying public service employment.




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Public Service Loan Forgiveness General Provisions


- Effective for qualifying monthly Direct Loan payments made on or after October 1, 2007
- Loans eligible for forgiveness are limited to:
 - Federal Direct Stafford Loans
 - Federal Direct Grad PLUS Loans
 - Federal Direct Consolidation Loans
- Any amount cancelled in this program will NOT be taxable in the calendar year it is cancelled



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Public Service Loan Forgiveness Reconsolidation in Direct

- Allows borrowers to reconsolidate any existing FFELP Federal Consolidation Loan (FCL) in the Federal Direct Loan Program to take advantage of the new public service loan forgiveness program



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Public Service Loan Forgiveness Qualifying Employment

In general, it's full-time employment in:

- 501(c)(3) organization that is exempt from taxation under section 501(a) of the Internal Revenue Code of 1986, or
- Government (federal, state, local, tribal) agency

Full-time employment is defined as **greater of**:


- 30 hours/week, or
- Employer's definition of full-time



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Public Service Loan Forgiveness Qualifying Payment Requirements


- Borrower must be working full-time in an eligible public service position, AND
- Make qualifying payments using:
 - Income Contingent Repayment, or
 - Income Based Repayment, or
 - Standard 10-year Fixed Repayment plan, or
 - Other plan, but monthly payment must be at least equal to amount required using Standard 10-year Fixed Repayment plan




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Public Service Loan Forgiveness Additional Eligibility Provisions


- 120 months do NOT have to be consecutive
- Must be working full-time in qualifying public service position at time of forgiveness
- Loan payments made prior to October 1, 2007 do NOT count toward the 120-month requirement
- Loan payments on non-eligible loans (e.g., FFELP loans, Federal Perkins Loans) do NOT count toward 120-month requirement




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Public Service Loan Forgiveness Loan Forgiveness


- Borrower applies after 120 qualified payments are made
- Borrower must be performing qualifying service:
 - At the time of each eligible payment
 - At the time of application for forgiveness
 - At the time of receipt of forgiveness
- Must submit application to ED (not available today)




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Public Service Loan Forgiveness Documentation

- Borrower is responsible for obtaining and retaining all documentation
- Students are encouraged to keep all employment records
 - Information showing borrower was a full time employee
 - Information showing employer was a qualifying public service organization



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Strategies on Repayment Counseling



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Think Big Picture

- Counsel students to consider all the facts
 - Personal and professional goals
 - Short and long term career goals
 - Money management skills
 - Personal repayment goals
- Recommend re-evaluation of repayment plan periodically




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Setting Goals

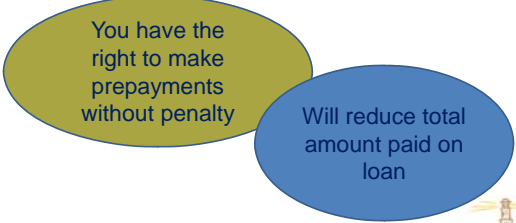


- When - Debt Free?*
- Immediate Purchases?*
- Lifestyle?*
- Retirement - When?*




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Loan Prepayment




You have the right to make prepayments without penalty

Will reduce total amount paid on loan



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Case Studies



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Public Service Loan Forgiveness Sample Law Grad Scenario (AGI = \$42,800)


Eligible Loan debt	\$100,000
Estimated monthly payment-Standard Plan	1,151
Principal balance after 10 years	\$0
Total amount paid after 10 years	\$138,096
Comparison with IBR Plan	
Assumed starting AGI in year 1	\$42,800
Assumed Annual Growth Rate in AGI	3%
Assumed Annual Increase in Poverty Line	3%
Assumed Annual CPI	3%
IBR monthly payment in 1 st month	\$331
IBR monthly payment in 120 th month (max)	\$432
Assumed AGI in year 10	\$55,844
Total amount paid in IBR over 10 years	\$45,509
Total principal paid using IBR over 10 years	\$0
Total unpaid interest forgiven after 10 years	\$22,491
Total principal forgiven after 10 years	\$100,000
Total amount forgiven after 10 years	\$122,491




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Public Service Loan Forgiveness Sample Law Grad Scenario (AGI = \$42,800)


Eligible federal student loan debt	\$150,000
Estimated monthly payment-Standard Plan	\$1,726
Principal balance after 10 years	\$0
Total amount paid after 10 years	\$207,145
Comparison with IBR Plan	
Assumed starting AGI in year 1	\$42,800
Assume salary growth in public service for first six 6 years repayment	3%
Assumed Annual Salary in year 7	\$125,000
Assumed Annual Salary increase after yr 7	10%
IBR monthly payment in 1 st month	\$331
IBR monthly payment in 72nd month (max)	\$384
Assumed annual salary in year 7	\$125,000
Total interest paid in IBR over 6 years	\$25,678
Total principal paid using IBR over 6 years	\$0
Total new loan balance due after six yrs in PSLF	\$185,522
Loan payment in IBR	\$1,726
Total principle and interest paid life of loan	\$312,567



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A Few Final Comments ...




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IBR Considerations


- Must have PHF to initially qualify
- Potential interest subsidy on Sub Stafford
- Spouse's income is included if filing joint return
 - Can file separate returns
 - Can include spouse's loans




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PSLF Considerations


- Eligible loans must be consolidated into DL
- Select IBR or ICR for at least part of the repayment period
- Loan forgiveness after 120 qualified payments
 - Amount forgiven is not taxable income
 - Must be in public service at the time of forgiveness
- PSLF should not be used as driving force in career choice



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For more information IBR and Federal Loan Forgiveness

- U.S. Department of Education provides information about IBR at: StudentAid.ed.gov
- Equal Justice Works has information about both programs at: EqualJusticeWorks.org
- "Project on Student Debt" has created a special Website specifically about IBR at: IBRinfo.org
- Calculators are available at: FinAid.Org/calculators, IBRinfo.org, MappingYourFuture.Org

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