

# Guiding Your Students Toward Successful Repayment Strategies

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# Agenda

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- The Need for Providing Guidance toward successful Repayment Strategy
- Benefits of Helping students establish an individual repayment strategy
- Five Steps to Successful Repayment
- Case Studies
- Questions/ Additional Considerations

# Student Lending Landscape

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**National default rate = 5.2%<sup>1</sup>**

**Students in default = 204,507<sup>2</sup>**

- Discussion:
  - What changes do you anticipate at your school with new DOE Regulations?
  - What do you anticipate as the issue that will have the greatest impact on your campus?
  - What are your most pressing issues with federal and private loan programs?

<sup>1</sup> Most recent cohort default rate. See: [www.ed.gov/news/pressreleases/2008/09/09162008a.html](http://www.ed.gov/news/pressreleases/2008/09/09162008a.html)

<sup>2</sup> Number of borrowers in 2006 cohort in default. See: [www.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html](http://www.ed.gov/offices/OSFAP/defaultmanagement/defaultrates.html)

# Back-to-School Study

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## **Parents of college students are worried about how the economy will affect their ability to pay for college.**

- The No. 1 worry, shared by 60% of parents, is that institutions will raise tuition
- 51% of parents expressing concern that loan rates will increase
  - The level of concern is greatest among families with annual incomes less than \$50,000
  - 76% of these families concerned about rising tuitions and 64 % concerned about possible increases in student loan interest rates
- Nearly 40 % of parents are worried that student loan money will be less available
- 38 % are worried that the value of their savings and investments will decline
- 28 % concerned that the value of their home will decrease, thus affecting their ability to pay for college

**How America Pays for College-Sallie Mae's National Study of College Students and Parents Conducted by Gallup**

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# Back-to-School Study

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**Nevertheless, nearly all students and parents think college is worth the cost.**

- 9 in 10 families believe that college is an investment in their future.
- Three-quarters of parents and 87% of students agree that they would rather borrow to pay for college than not be able to go at all.

**How America Pays for College-Sallie Mae's National Study of College Students and Parents Conducted by Gallup**

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# Back-to-School Surveys

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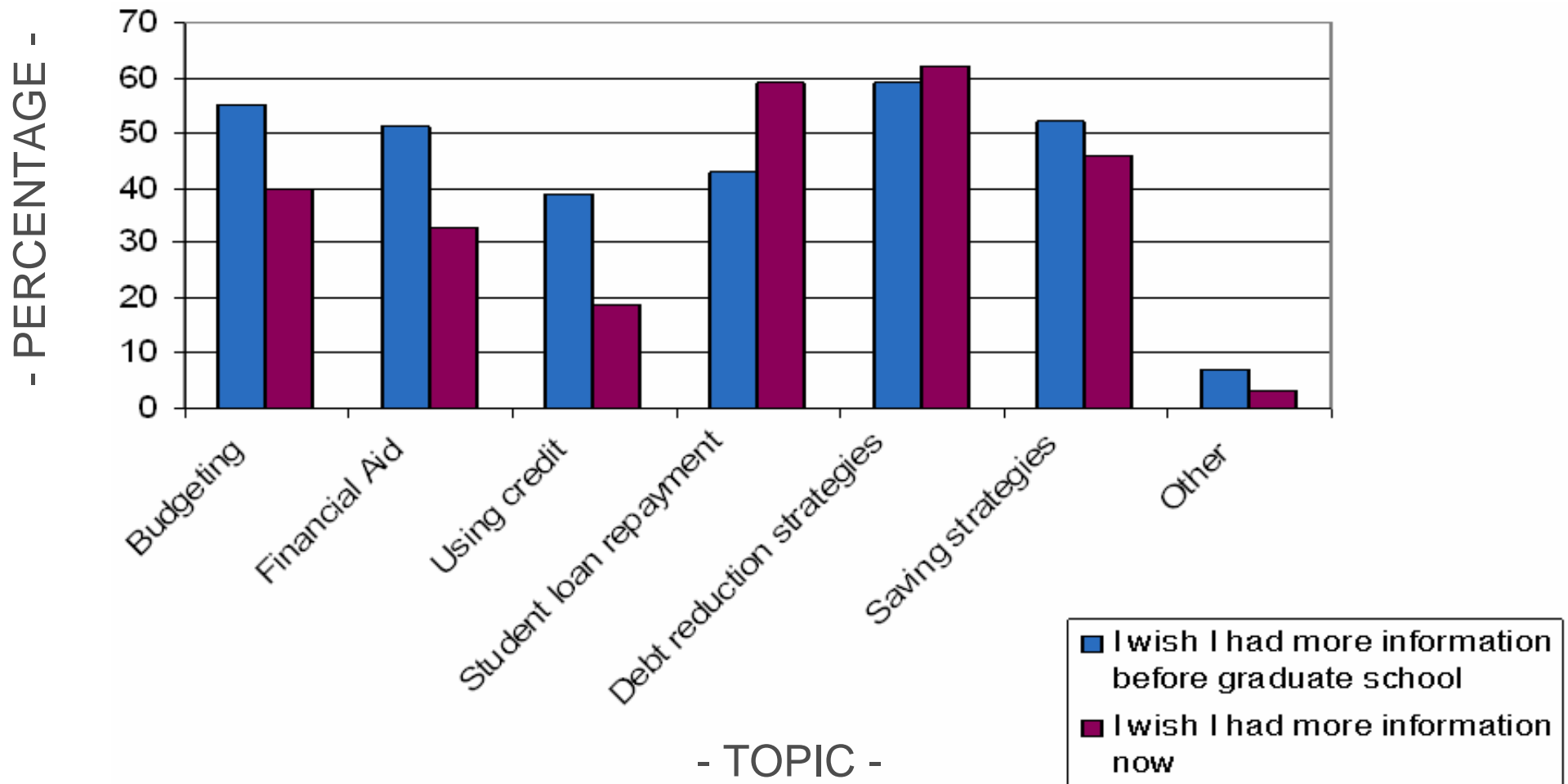
## Yet, only 19% of parents discuss back to school budgeting<sup>1</sup>

- 63% of the parents surveyed say they definitely see personal finance education as their responsibility and consistently make the effort to teach their children about it, compared to the only 41% of students who say their parents did.
- Students and parents agree that college students are not well prepared to deal with the financial challenges that lie ahead.
- Fewer than 25% of students and only 20% of parents say students are very well prepared to deal with the financial challenges that await them after graduation.
- 76% of students wish they had more help preparing for their financial future.

<sup>1</sup>2007 annual back-to-school survey from **Capital One**

<sup>2</sup>2007 survey by **The Hartford Financial Services Group, Inc**

# Credit Education Preferences



# Credit Education News

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Graduates drowning in debt from high cost of college

*“At a time when deep uncertainty permeates the economy, graduates across the country are entering the workplace with staggering liabilities. The average student debt has doubled since the mid-1990s.”*

*“And that burden often has an effect on the most fundamental choices graduates are making about their lives — decisions about home, family and career.”*

-Nick Perry, Seattle Times higher education reporter

# Successful Repayment

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- Personal Budgeting is the foundation for solid repayment strategy
- Efficient management of loans
  - Savings
  - Good credit score
- What's right for one borrower may not be right for another
  - Individualized loan portfolio
- Is it too late to wait until year four to start thinking about repayment?
- How do you manage:
  - UG Private loan borrowing
  - DTC loans

# Benefits of Successful Repayment

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- Reduced default rate
- Improved Customer Service to Students
- Positive Reputation
  - FAO
  - College
- Exponential Alumni Effect
  - Contributions/Support
  - Cradle to Cradle
- Societal benefits

# Five Steps: Successful Repayment

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1. Review Student's portfolio and financial habits
2. Identify goals important to Student
3. Prioritize selected goals and review associated strategies
4. Research other strategy options
5. Student Responsibility: Have Student define his/her personal strategy and follow through!

## Tip

Encourage Student to Review goals and strategies periodically – at least once a year – to ensure they still fit within his/her current priorities.

# Step 1: Portfolio and Finances

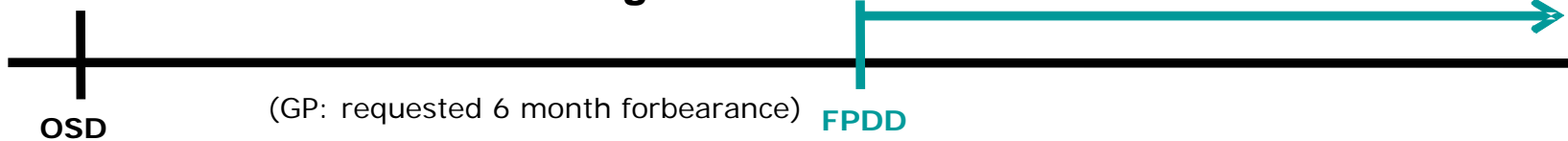
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## Review Portfolio and Financial Habits

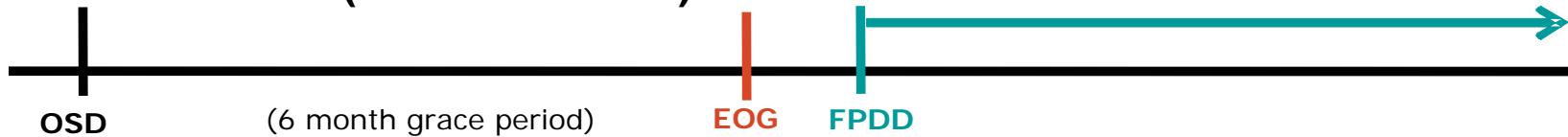
- Understand terms of each loan
- Think about personal skills and capabilities in managing finances
- Identify the factors which may affect Student's strategy

# Repayment Timeline Complexities

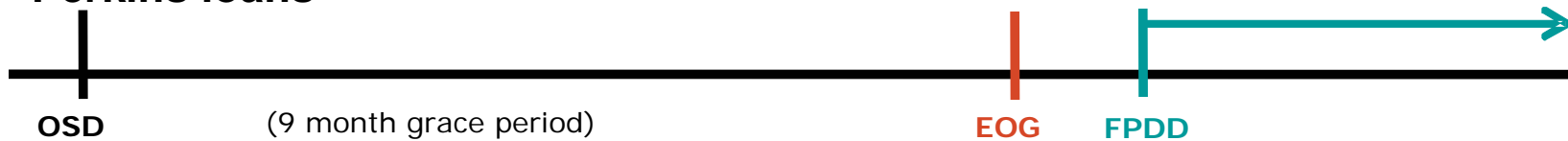
## Grad PLUS and Most Existing Consolidation loans



## Stafford loans (unconsolidated) and DL “In-school” Consolidation loans



## Perkins loans



## Private loans



OSD – Out of School Date  
 EOG – End of Grace Period  
 FPDD – First Payment Due Date

Need to manage debt from this time period forward

1. Make payments (Full or Interest -only)
2. Deferment (UNEM or HRD?)
3. Forbearance

# Questions to Consider

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- What are your payments and when are they due?
- Can you afford these payments?
  - If not, do you need short-term or long-term relief?
- Do you have loans with different interest rates?
- Do you have loans with multiple lenders / servicers?
- Are your current loans eligible for incentive benefits?
- Do you have federal education loans? Private education loans? Other debt?

# Step 2: Possible Goals

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- Minimize total repayment costs
- Minimize monthly payment (short term or long term)
- Minimize payments to multiple companies
- Pay off higher interest rate loans quickly
- Manage private student loan repayment
- Manage credit card repayment

# Step 3: Identify Student's Goals

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Identify and prioritize the goals most important to you.

Goal	Important ?	Priority
Minimize total repayment costs		
Minimize monthly payment (short term)		
Minimize monthly payment (long term)		
Minimize payments to multiple companies		
Pay off higher interest rate loans quickly		
Manage private student loan repayment		
Manage credit card repayment		

# Step 4: Review Strategy Options

Financial Goal	Consider These Repayment Strategies
<p><b>Minimize total repayment costs</b></p>	<p>Select repayment option with the highest monthly payment and shortest repayment term that you can afford.</p> <p>Pay some or all of the accruing interest during periods in which payments are not required.</p> <p>Prepay loans with highest interest rates first.</p> <p>Ensure all required actions are taken to earn borrower benefits, if available.</p> <p>Investigate loan forgiveness and cancellation options.</p> <p>Consider consolidating any variable-rate Stafford and PLUS loans if interest rates are low, but make sure to assess the value of borrower benefits on your current loans that you may lose by consolidating.</p>
<p><b>Minimize monthly payment (short-term)</b></p>	<p>Investigate deferment options* to temporarily reduce or eliminate payments.</p> <p>Review graduated repayment plan options. You may be allowed to choose the appropriate length of time that your monthly payment is minimized.</p> <p>Investigate forbearance options to temporarily reduce or eliminate payments*.</p>
<p><b>Minimize monthly payment (long-term)</b></p>	<p>Pursue an extended repayment option if you are eligible.</p>

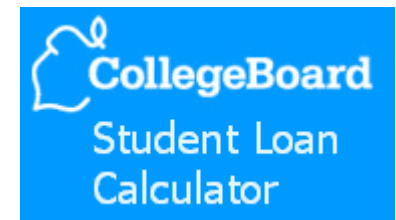
# Step 4: Review Strategy Options

Financial Goal	Consider These Repayment Strategies
<p><b>Pay off higher interest rate loans quickly</b></p>	<p>Make minimum payments on lower rate loans, adjusting your repayment plan if needed, and make the highest payments you can afford on higher rate loans.</p> <p>Review postponement options* on lower rate loans to allow you to make higher payments on your higher rate loans. Do not consolidate higher rate loans, or consider consolidating them separately from other loans.</p>
<p><b>Manage private loan repayment</b></p>	<p>Pay some or all of the accruing interest during periods in which payments are not required. Consult your private loan lender to evaluate repayment plans available.</p> <p>Consider reducing monthly payment amounts on federal loans to pay down private loans more quickly. Applying with a cosigner and/or improving your credit score before consolidating private loans may result in better interest rates.</p> <p>Simplify with combined billing options.</p>
<p><b>Manage credit card repayment</b></p>	<p>Consider paying off higher interest rate credit cards or paying more than the monthly amount due on these credit cards. Consider a strategy that includes allotting higher amount of monthly income to pay off higher interest rate debt.</p> <p>Stop or minimize the use of credit cards until your balance is low enough to pay-in-full every month.</p>

# Next Steps

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At least once a year, use resources to review your goals and, if needed, adjust your strategies at least once a year to stay on track with changes and your priorities.



# Step 5: Personal Strategy Discussion

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- Define personal strategy and follow through; what is right for one student may not be right for another.

# Path to Successful Repayment

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- Starts with Personal Budget
- Clear understanding of Needs vs. Wants
- Clear and informed borrowing decisions
- Access to tools and resources for periodic reality checks
- Annual look at Individual Loan Portfolio
- Discussion/planning for repayment in all years
- Selection of best personal Repayment strategy
- Implementing the Repayment Strategy

# Questions

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