

GUIDING YOUR STUDENTS TOWARD A SUCCESSFUL REPAYMENT STRATEGY

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AGENDA

- ▶ 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

2007 national student cohort default rate = **6.7%**¹

Students in default = **225,300**²

► Discussion:

- What changes do you anticipate at your school?
- 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?

¹ Most recent cohort default rate.

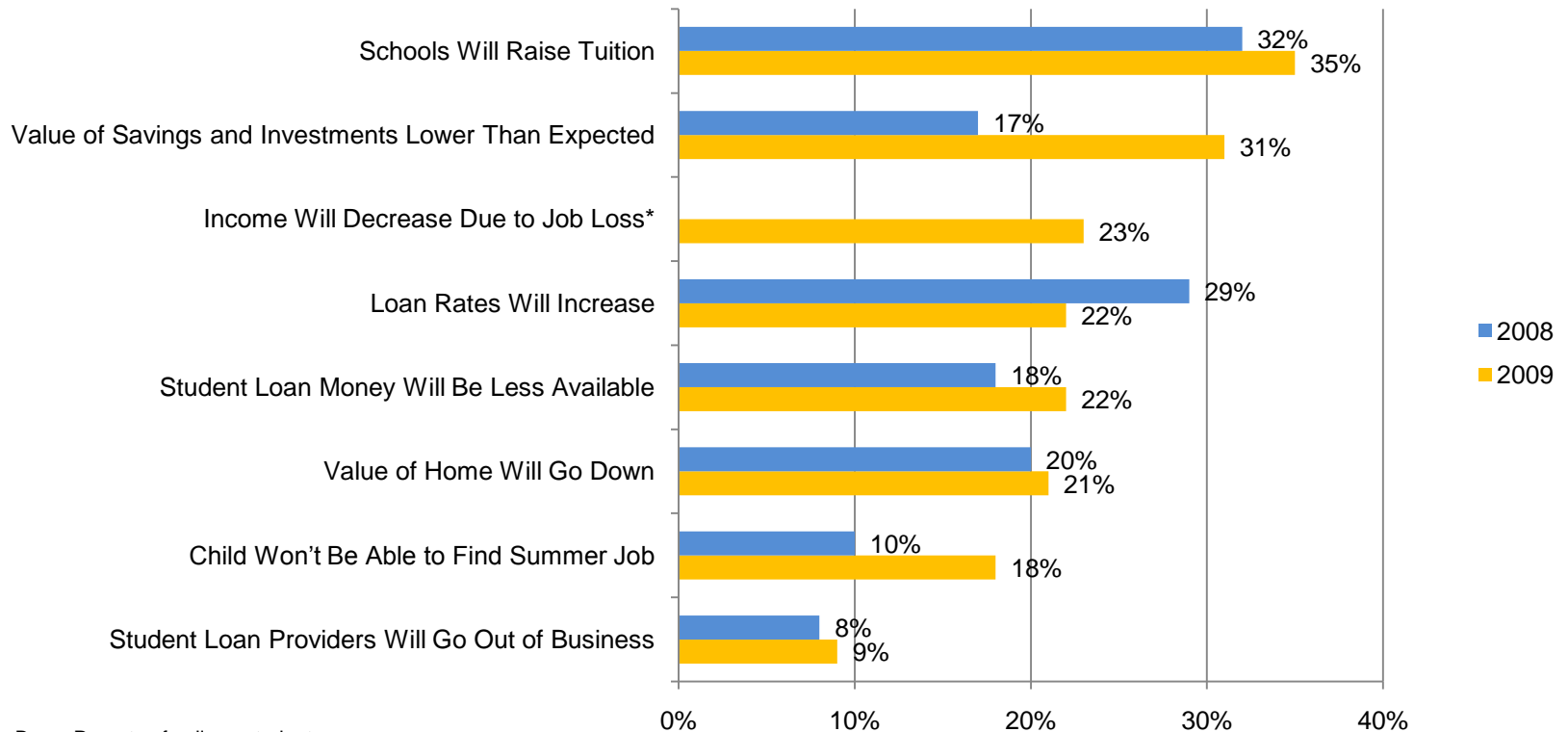
² Number of borrowers in 2007 cohort in default.

See: <http://www.ed.gov/news/pressreleases/2009/09/09142009.html>

PARENT ECONOMIC CONCERNS

Despite confidence in ability to pay for college, current economic conditions increased worries among parents of college students.¹

Change in Parent Economic Concerns, 2008 vs. 2009



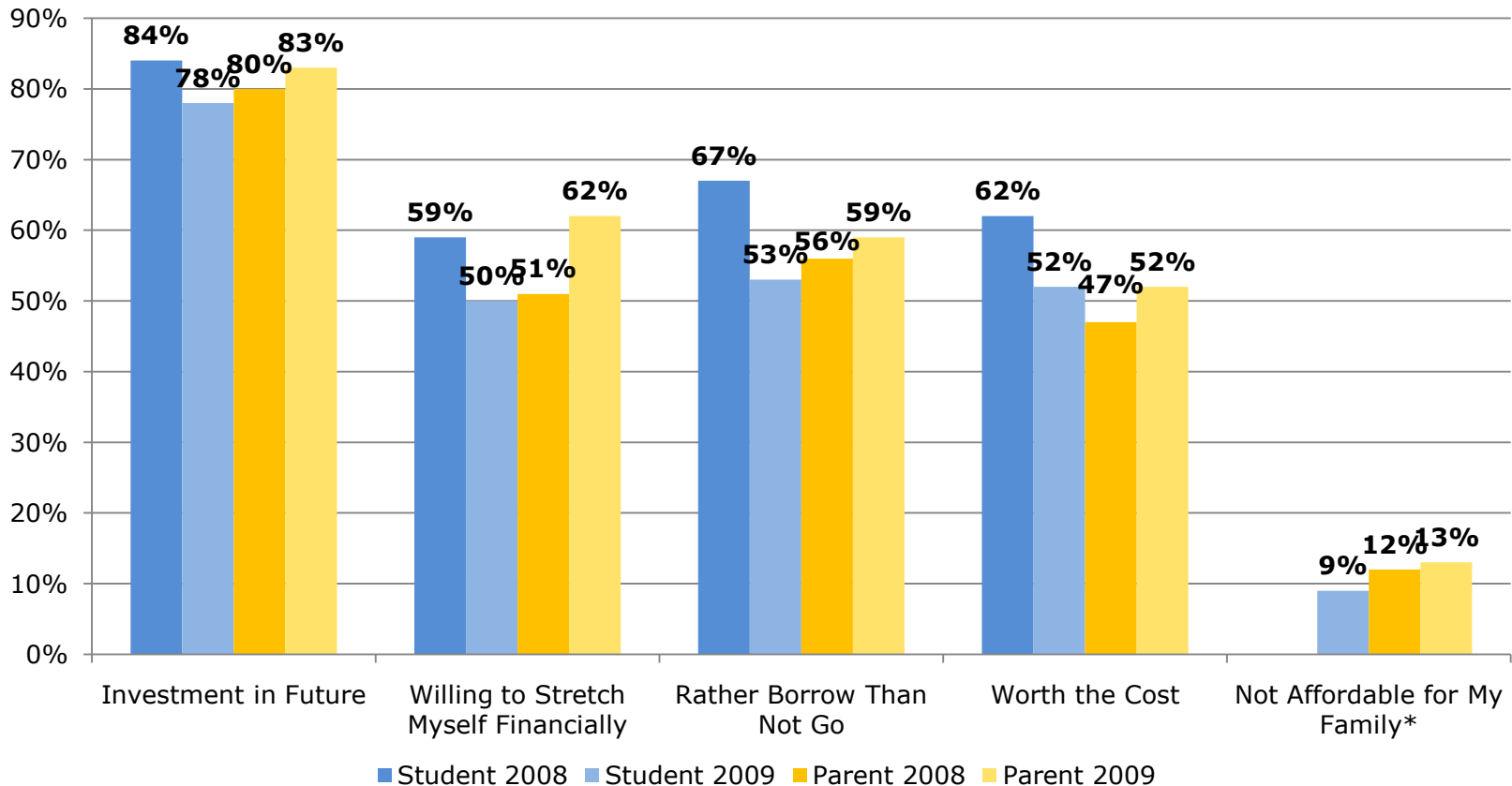
Base: Parents of college students.

*Not asked in 2008

2009 How America Pays for College-Sallie Mae's National Study of College Students and Parents Conducted by Gallup
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VALUE OF EDUCATION

Students appear to be more cost-conscious when considering value. Parents are more willing to stretch financially and have somewhat higher opinions of the value of college.¹



*Not asked of students in 2008

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CREDIT STUDY – AY 2007-2008



- ▶ Few students can afford to pay for college without some form of education financing.¹
 - 65.6% of 4-year undergraduates graduated with some debt
 - Average student loan debt among graduating seniors was **\$23,186** (excluding PLUS Loans but including Stafford, Perkins, state, college and private loans).
 - Among graduating 4-year undergraduates who applied for federal student aid, 86.3% borrowed to pay for their education and the average cumulative debt was **\$24,651**.
 - Including PLUS loans in the total, 66.0% of 4-year undergraduate students graduated with some debt in 2007-08, and the average cumulative debt incurred was **\$27,803**.
 - 13.5% of parents borrow PLUS loans for their children's college education, with a cumulative PLUS loan debt of **\$23,298**.

1. Figures were calculated using the data analysis system for the 2007-2008 National Postsecondary Student Aid Study (NPSAS) conducted by the National Center for Education Statistics at the US Department of Education.

BACK-TO-SCHOOL SURVEYS

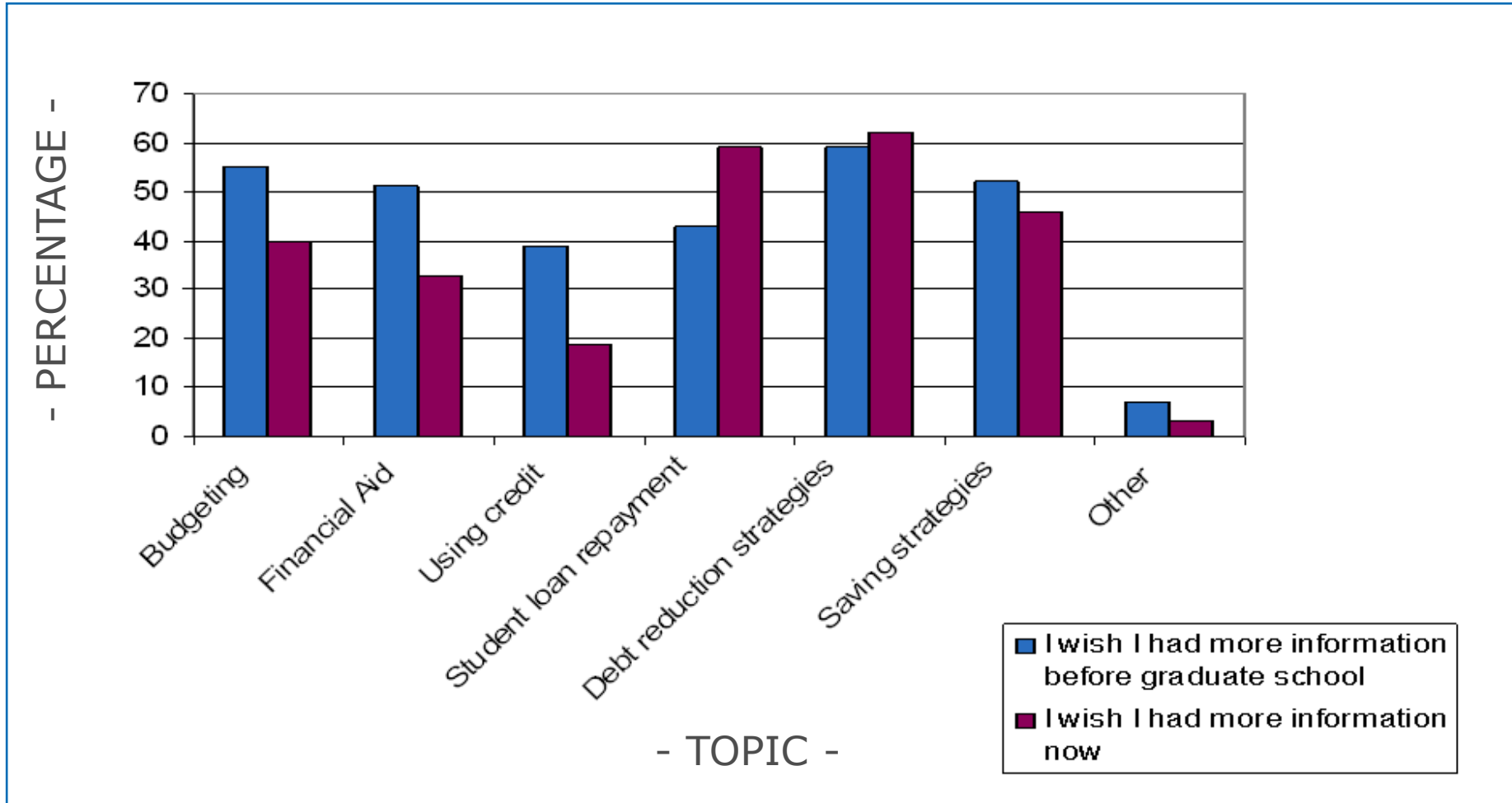
Yet, only 19% of parents discuss back to school budgeting¹

- ▶ 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.

1. 2007 annual back-to-school survey from **Capital One**

2. 2007 survey by **The Hartford Financial Services Group, Inc**

CREDIT EDUCATION PREFERENCES



SUCCESSFUL REPAYMENT

- ▶ 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

- ▶ 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

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

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
- ▶ Understand Loan Forgiveness programs and complex repayment timelines

QUESTIONS TO CONSIDER

- ▶ 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?
- ▶ Are any of your loans potentially eligible for a forgiveness program?

LOAN FORGIVENESS PROGRAMS

- ▶ Under certain circumstances, the federal government will cancel all or part of an educational loan. To qualify, a student can:
 - Perform volunteer work; e.g. AmeriCorps, Peace Corps, Volunteer Service to America (VISTA)
 - Perform military service; e.g. Army National Guard,
 - Teach or practice medicine or legal services in certain types of communities; or,
 - Meet other criteria specified by the forgiveness program
- ▶ The College Cost Reduction and Access Act of 2007 established a new public service loan forgiveness program. This program discharges any remaining debt after 10 years of full-time employment in public service.

INCOME-BASED REPAYMENT (IBR)

Effective July 1, 2009

- ▶ For FFELP and FDLP borrowers experiencing “partial financial hardship.”
- ▶ You qualify if your annual monthly student loan payments exceed 15% of the portion of household AGI above 150% of poverty line.
- ▶ If you are eligible for IBR, your monthly payment will be determined by a formula that takes into account household size and adjusted gross income.
- ▶ Negative amortization may occur with this option because it allows minimum monthly payments to be less than accruing interest.

INCOME-BASED REPAYMENT (IBR)

Effective July 1, 2009

- ▶ IBR provides for up to a 36-month interest subsidy period when a scheduled monthly payment amount on a subsidized loan is less than accrued interest.
- ▶ Payment can never exceed the amount needed to pay off loan(s) in 10 years; thus, after a while, increases in income may not affect the payment.
- ▶ Unpaid balance left at end of 25 years is forgiven.

REPAYMENT TIMELINE COMPLEXITIES

- ▶ Because different loans enter repayment at different times, students need to be prepared to adjust monthly budgets as additional loans become due.
- ▶ When notices are received that a payment is going to be due, review options to determine what is going to be the best method to manage payments.

STEP 2: POSSIBLE GOALS

- ▶ 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
- ▶ Take advantage of forgiveness benefits

STEP 3: IDENTIFY STUDENT'S GOALS

Identify and prioritize the goals most important to you; take advantage of loan forgiveness programs.

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>Minimize total repayment costs</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>Minimize monthly payment (short-term)</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>Minimize monthly payment (long-term)</p>	<p>Pursue an extended repayment option if you are eligible.</p>

STEP 4: REVIEW STRATEGY OPTIONS

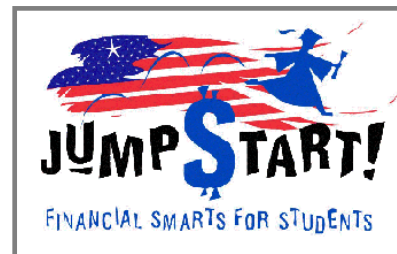
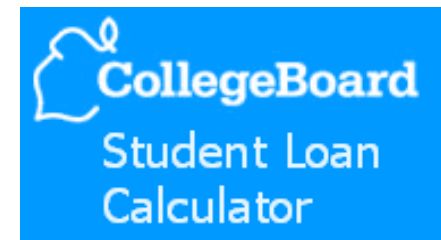
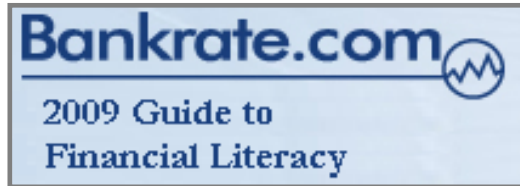
Financial Goal	Consider These Repayment Strategies
Pay off higher interest rate loans quickly	<p>Make minimum payments on lower rate loans, adjusting your repayment plan if needed, and make the highest payments you can afford on higher rate loans.</p> <p>Review postponement options* on lower rate loans 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>
Manage private loan repayment	<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>
Manage credit card repayment	<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>

STEP 4: REVIEW STRATEGY OPTIONS

Financial Goal	Consider These Repayment Strategies
Take advantage of loan forgiveness programs	<p>Assess potential eligibility for loan forgiveness programs. Are you eligible for:</p> <ul style="list-style-type: none">• Public Service Loan Forgiveness. Available for Direct Stafford, Direct Grad PLUS and most Direct Consolidation loans. Balance remaining after making 10 years' worth of payments while employed in eligible public service job is forgiven. You can estimate potential amount to be forgiven by using calculators not available on Web.• Perkins loan forgiveness. Available to those pursuing careers in teaching, law enforcement, and the military, among others. Full forgiveness available after 5 years of service in eligible fields.• LRAP—Loan Repayment Assistance Programs—offered by schools and some employers. <p>Explore eligibility for income-based repayment for federal loans. Consolidate FFELP and, perhaps, Perkins loans into Direct Loan Consolidation loan.</p> <p>Put Perkins loans into forbearance while in public service.</p> <p>Keep really good records of employment during public service career.</p> <p>If IBR offers lower payment, use increased discretionary income to pay down more expensive debt and/or private education loans that are eligible for forgiveness programs.</p>

NEXT STEPS

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

- ▶ Define personal strategy and follow through.
- ▶ And, remember, what is right for one student may not be right for another.

PATH TO SUCCESSFUL REPAYMENT

- ▶ 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