

## New Things for Graduate Students

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## Topics

- Teach Grant-CCRAA
- Repayment Counseling-CCRAA
  - Repayment Options
  - Public Service Loan Forgiveness
- Loan Counseling

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## Teach Grant

- Begins July 1, 2008
- Provides up to \$4000 a year in grant to undergraduate or graduate students or students enrolled in a post-baccalaureate teacher certification program or current or prospective teacher
- Eligible post-baccalaureate students may not receive more than \$16,000
- Graduate students may receive no more than \$8,000

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**Teach Grant  
Student Eligibility Requirements**

- GPA requirements do NOT apply to graduate students who are currently teachers or who are retiring and have expertise in a subject where there is a shortage of teachers
- Graduate students completing a high-quality alternative teacher certification program, like Teach for America, are also eligible for the program.
- Student must be completing (or planning to complete) the coursework required to become a teacher

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**Teach Grant Recipient  
Requirements**

- Serve as a full-time teacher for at least four years within eight years of completion of study
- Comply with the requirements of being a highly qualified teacher
- Teach math, science, foreign language, bilingual education, special ed, a reading specialist, or a subject designated as "high need" by the federal or state gov't, or local education agency and approved by the Dept.
- Provide certification by the school's chief administrator annually as evidence of required employment

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**Loan Repayment Options Based  
on Income**

- Income-Contingent Repayment
- Income-Sensitive Repayment
- Income-Based Repayment

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### Income-Contingent Repayment Option (ICR)

- Established in 1993 under the Clinton administration
- Allows you to repay over an extended 25 year term
- Limits the yearly repayment obligation to 20% of discretionary income
  - Discretionary income=AGI minus 100% of poverty level
  - Calculated monthly payment may not cover interest due-excess is added to principle
  - After 25 years of ICR payment, balance is forgiven
- Only available through the Federal Direct Loan program
- Qualifies for public service loan forgiveness

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### Income-Sensitive Repayment Option

- An alternative to the ICR for loans serviced by lenders in the FFELP
- Monthly loan payment is pegged to a fixed percentage of gross income, between 4% and 25%
  - Percentage is determined by the borrower
  - The resulting monthly payment must be greater than or equal to the interest that accrues.

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### Income-Based Repayment

- Effective July 1, 2009
- Limits the annual repayment to 15% of borrower's discretionary income (Discretionary income = AGI minus 150% of the poverty level)
- Unpaid balance can be forgiven after 25 years
- This repayment option qualifies for Public Service forgiveness

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## IBR Repayment Example

- Assume a borrower has borrowed the following:
  - Stafford Loan    6.8%    \$61,500
  - Grad PLUS        8.5%    \$38,500
- Total Debt= \$100,00
- Average Interest rate=7.45%
- Consolidation Interest Rate=7.5%

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- Assume borrower earns \$40,000 annually
- Standard repayment = \$1,187/month for 10 years
- IBR monthly payment = \$305/month to start
  - \$40,000 (AGI)
  - \$15,600 (150% of poverty guideline)
  - = \$24,400 x 15% = \$3,660
  - ÷ 12 months = \$305/month

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## Repayment Example (cont.)

- Assume the borrower earns \$40,000 annually
- Standard Repayment=\$1,187 month for 10 years
- Extended Repayment=\$699 month for 30 years

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### Later in repayment...

- Assume borrower earns \$40,000 annually to start
- Assume 4% increase in salary and 3% increase in poverty level each year
- IBR monthly payment = \$305/month-year 1
- Salary at \$56,932 by year 10
- IBR monthly payment = \$457/month-year 10

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- Beginning Loan Balance = \$100,000
- Total loan balance paid during 10 years of IBR = \$45,211
- Remaining loan balance after 10 years of IBR = \$129,334 (including capitalized interest)
  - This amount can be forgiven by federal government under public service provisions

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### Comparison

- | ICR Example                                       | IBR Example                                       |
|---|---|
| • \$493.33/month-year 1                           | • \$309.00/month-year 1                           |
| • Max monthly payment \$722.71                    | • Max monthly payment \$457.23                    |
| • Total Loan Forgiven after 10 years=\$106,466.26 | • Total Loan Forgiven after 10 years=\$129,333.93 |

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## New Federal Public Service Loan Forgiveness

- Secretary of Education shall cancel the balance of interest and principal due for a borrower on any eligible Federal Direct Loans provided the following three conditions have been met:
  - Loans are not in default
  - Borrower has worked in full-time for a total of 10 years (120 months) in a qualifying public service position after July 1, 2009
  - Borrower has made 120 qualifying loan payments on those Direct Loans during the period of qualifying public service employment

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## Public Service Loan Forgiveness General Provisions

- Effective for qualifying monthly loan payments made on or after October 1, 2007 in the Federal Direct Loan Program
- Loans eligible for forgiveness are limited to:
  - Federal Direct Stafford
  - Federal Direct Grad PLUS
  - Federal Direct Consolidation
    - Consolidation loans that include parent PLUS Loans are not eligible
- Any loan amount that is cancelled is taxable in the calendar year in which it is cancelled

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## Public Service Loan Forgiveness Qualifying Payment Requirements

- Borrower must be working in an eligible Public Service position **AND** be making monthly payments for 120 months
  - Income Contingent Repayment
  - Income Based Repayment
  - Standard Repayment based on 10 year repayment schedule
  - Repayment plan where the monthly payment is NOT less than the Standard Repayment plan over a 10-year period

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## Public Service Loan Forgiveness

Reconsolidate in Direct

- Effective July 1, 2008
- Allows borrowers to reconsolidate any existing FFEL Federal Consolidation Loan in the Direct Program to take advantage of the Public Service Loan Forgiveness

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## New Loan Counseling Requirements

Effective July 1, 2008

- Entrance and exit counseling required for the Grad PLUS Loan
- Lender partners no longer allowed to provide in-person loan counseling
- Lenders may still provide online counseling

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## Counseling Responsibilities Beyond the Federal Requirements

- Grad PLUS vs. Private
- Loans without a grace period
- Complicated loan portfolios
- Consolidate or not?
- Early payments
- Effects of the credit crunch

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## Comparison of Grad PLUS vs. Alternative Loans

### Grad PLUS

- Federal Guidelines
- Fixed interest rate
- Minimum Fees 3%
- No Grace Period
- Deferment and forbearance
- Can include in a federal consolidation
- Loan Forgiveness

### Alternative Loans

- Lender Terms
- Variable interest rate
- Fees starting at 0%
- Possible Grace Period
- Deferment/forbearance dependent upon lender
- Cannot consolidate
- No loan forgiveness available

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## Immediate Repayment Issues

- Consolidation loans and Grad PLUS Loans do not have a grace period
- Most lenders are willing to grant an alignment forbearance for 6 months
- Student is required to request the forbearance—lender cannot assume the borrower wants it

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## The Complicated Loan Portfolio

- Students graduating this year and next likely have several different types of student loans (consolidation, variable Stafford, fixed Stafford, Grad PLUS, Perkins, private)
- It is our responsibility to make sure the students understand the differences

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**Consolidation:**  
It's no longer a no brainer

- Consolidation used to be all the rage—the only way to save money in student loan repayment by locking in the lowest fixed interest rate available.
- Fixed interest rates, extended repayment and retraction of borrower benefits make it so consolidation is back to its original intent—to combine together and extend the term for easier repayment.

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**Early Payments**

- Early payments toward principle can help borrowers pay off early and pay less in interest
- Lenders vary on how they want to receive early payments
- Early payments should be accompanied by specific instruction on how to apply the payment (i.e. Please apply this extra \$50 to the principle of my ABC Private Loan with the 10.72% interest rate.)
- Early payments should be directed at most expensive loans first

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**Example: Prioritized Repayment**

1. Private loan at 9.5%
2. Grad PLUS Loan at 8.5%
3. Stafford Loan at 6.8%
4. Perkins Loan at 5%
5. Consolidation Loan at 4.75%
6. Consolidation Loan at 2.875%

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### How the Credit Crunch affects our student borrowers

- Lenders have rescinded most borrower benefits
- Many lenders cannot offer consolidation loans
- Lenders are leaving FFELP so students may need to select new lender

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### Counseling Challenges

- How do we advise students about which loan to borrow Grad PLUS or alternative?
- How do we counsel students about repayment options?
- Should students consolidate and which loans should be included in consolidation?

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### In Summary

- The times they are a-changin'!
- The good:
  - TEACH Grants, IBR, Loan Forgiveness
- The bad:
  - More expensive loans, complicated loan portfolios, economic uncertainty
- The saving grace:
  - Our students have us to help them through it!

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## Resources

- Equal Justice Works  
– [www.equaljusticeworks.org](http://www.equaljusticeworks.org)
- FinAid  
– [www.finaid.org](http://www.finaid.org)
- NASFAA  
– [www.nasfaa.org](http://www.nasfaa.org)

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