

The Reality of Repaying Your Student Loans

Chicago Office of Financial Aid

What will we go over?

Putting loan repayment into perspective

- Know what you owe and how to fit student loan repayment into your financial goals
- Overview of federal repayment plan options
 - “Traditional” Repayment Plans
 - Income-Driven Repayment Plans

Federal Consolidation versus Private Refinancing

Resources

LRAP and PSLF will be covered in greater detail during future presentations in this series

Know What You Owe

- Visit the National Student Loan Data System (nslds.ed.gov) to review your federal student loan debt:

	Type of Loan	Loan Amount	Loan Date	Disbursed Amount	Canceled Amount	Outstanding Principal	Outstanding Interest
1	DIRECT CONSOLIDATED UNSUBSIDIZED	\$35,059	05/16/2014	\$35,060	\$0	\$40,161	\$76
2	DIRECT CONSOLIDATED SUBSIDIZED	\$12,574	05/16/2014	\$12,574	\$0	\$14,404	\$27
3	DIRECT STAFFORD UNSUBSIDIZED	\$18,638	08/29/2012	\$8,388	\$10,250	\$0	\$0
4	DIRECT CONSOLIDATED UNSUBSIDIZED	\$22,997	08/22/2012	\$23,089	\$0	\$0	\$0
5	DIRECT CONSOLIDATED SUBSIDIZED	\$11,811	08/22/2012	\$11,819	\$0	\$0	\$0
6	DIRECT STAFFORD SUBSIDIZED	\$1,833	09/07/2010	\$1,833	\$0	\$0	\$0
7	DIRECT STAFFORD UNSUBSIDIZED	\$2,333	09/07/2010	\$2,333	\$0	\$0	\$0
8	FFEL STAFFORD UNSUBSIDIZED	\$5,500	06/25/2009	\$5,500	\$0	\$0	\$0
9	FFEL STAFFORD UNSUBSIDIZED	\$6,500	10/13/2008	\$6,500	\$0	\$0	\$0
10	FFEL STAFFORD SUBSIDIZED	\$8,500	10/13/2008	\$8,500	\$0	\$0	\$0
11	DIRECT STAFFORD UNSUBSIDIZED	\$5,500	04/26/2007	\$5,500	\$0	\$0	\$0
Total DIRECT CONSOLIDATED UNSUBSIDIZED						\$40,161	\$76
Total DIRECT CONSOLIDATED SUBSIDIZED						\$14,404	\$27
Total DIRECT STAFFORD UNSUBSIDIZED						\$0	\$0
Total DIRECT STAFFORD SUBSIDIZED						\$0	\$0
Total FFEL STAFFORD UNSUBSIDIZED						\$0	\$0
Total FFEL STAFFORD SUBSIDIZED						\$0	\$0
Total All Loans						\$54,565	\$103

- For private loans, check your credit report for free at annualcreditreport.com

Know Your Financial Goals

Consider your expected financial situation, including:

- Your desired career and anticipated salary
- Your desired lifestyle
- Your desired long-term financial goals (saving for retirement, buying a house, etc)
- Other expected debt/bills upon graduating

Keep these expectations in mind when deciding on your repayment goal:

- Minimize monthly payments to maximize available cash
- Aggressively repay your debt to minimize total interest paid
- Qualify for Public Service Loan Forgiveness (PSLF)

Strategize and “Repay Smart”

- The availability of many different federal repayment plans, including IDR, offers “tools for success”
- Starting goal upon graduation should be to stabilize financially then reassess repayment
 - You are not locked into the repayment plan you choose upon graduation!

What Are Your Financial Goals?

Think about opportunity costs



- Saving an emergency fund
 - Minimum 6-9 months worth of living expenses
- Investing for retirement
 - Minimum of 10%-15% of your salary
- Saving for your children's education
- Saving for a down payment
 - MINIMUM of 10% of the purchase price
- Saving for other desires (vacations, large purchase, etc)
- Making charitable contributions

Know Your Federal Repayment Options

“Traditional” Federal Repayment Plans

- Standard Repayment Plan
- Graduated Repayment Plan
- Extended Repayment Plan (Fixed or Graduated)

Income-Driven Federal Repayment Plans

- Income-Contingent Repayment Plan (ICR)
- Income-Based Repayment Plan (IBR, both Original and New)
- Pay As You Earn Repayment Plan (PAYE)
- Revised Pay As You Earn Repayment Plan (REPAYE)

- Income-Sensitive Repayment Plan

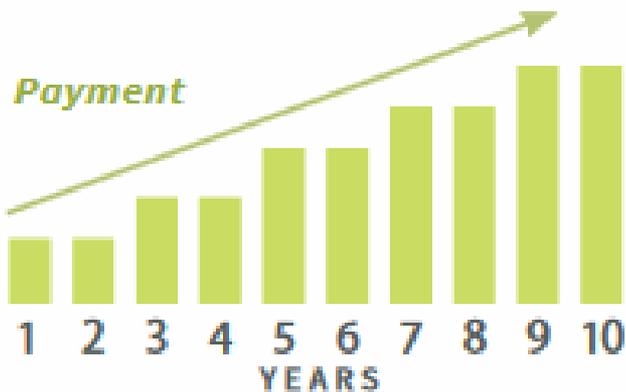
Standard Repayment Plan



- Default repayment plan
- All federal loans are eligible for repayment under this plan
- 10 year repayment length (30 years for Consolidation loans)
- Highest monthly payment, but the lowest total interest paid
- Plan is PSLF-eligible

Graduated Repayment Plan

GRADUATED 10-YEAR



- All federal loans are eligible for repayment under this plan
- 10 year repayment length (up to 30 years for Consolidation loans)
- Payments start low and increase over time, typically every two years
 - Initial payments will be for the amount of interest that has accrued between payments
 - Later payments will be larger than payments under the Standard Plan
- Plan is **NOT** PSLF-eligible

Extended Repayment Plan

- All federal loans are eligible for repayment under these plans
- Repayment length of up to 25 years
- Must have at least \$30,000 in debt
- Payments can be either fixed (same amount for all 25 years) or graduated (start low and increase over 25 years)
 - Initial payments will be for at least the amount of interest that has accrued between payments
- Plans are **NOT** PSLF-eligible

EXTENDED (FIXED)
25-YEAR



EXTENDED (GRADUATED)
25-YEAR



Income-Driven Repayment (IDR) Plans

Pros	Cons
More manageable, lower monthly payments	Repayment period could be more than 10 years
Lower payments will maximize LRAP benefits	Low payments can result in negative amortization
Remaining principal and interest is forgiven after 20 to 25 years of payments	Required annual submission of income and family size information to continue in IDR plan
Can use PSLF and have remaining principal and interest forgiven after 10 years of qualifying payments	Non-PSLF forgiveness is considered taxable income

Things to Consider With IDR Plans

1. Difference between Direct Loans (DL) and Federal Family Education Loan Program (FFEL) loans
2. Definition of discretionary income
3. Negative Amortization
4. Taxability of forgiven balances
5. Annual recertification of income and family size

Income-Driven Repayment Plan Options

- Income-Based Repayment Plan (**IBR**)
 - Original IBR
 - New IBR
- Pay As You Earn Repayment Plan (**PAYE**)
- Revised Pay As You Earn Repayment Plan (**REPAYE**)
- Income-Contingent Repayment Plan (**ICR**)
- Income-Sensitive Repayment Plan

Older Plans

Income-Contingent Repayment (DL loans only)

- Payment equals lesser of 20% of discretionary income or a 12-year fixed payment (income adjusted)
- Remaining debt forgiven after 25 years, considered taxable income
- Only IDR plan available to Parent PLUS borrowers (under certain conditions)
- Plan is PSLF-eligible

Income-Sensitive Repayment (FFEL loans only)

- Plan is **NOT** PSLF-eligible as it only serves FFEL loans

Income-Based Repayment (IBR)

Original IBR

- Direct Loans and FFEL loans eligible
- Payment equals 15% of discretionary income
- Remaining debt forgiven after 25 years of qualifying payments, considered taxable income

New IBR

- Must be a new borrower as of 7/1/2014
- Direct Loans only
- Payment equals 10% of discretionary income
- Remaining debt forgiven after 20 years of qualifying payments, considered taxable income

Pay As You Earn (PAYE)

- New borrower as of 10/1/2007
AND
- Must have received a Direct Loan disbursement on or after 10/1/2011
- Direct Loans only
- Payment equals 10% of discretionary income
- Remaining debt forgiven after 20 years of qualifying payments, considered taxable income

Revised Pay As You Earn (REPAYE)

- No restrictions on eligibility, all Direct Loan borrowers are eligible
- Payment equals 10% of discretionary income
- No cap on monthly payment amount
- Remaining debt forgiven after 25 years of qualifying payments, considered taxable income
 - Borrowed undergraduate loans only? Repayment timeline before forgiveness is 20 years

Plan	Loan Types <i>(Includes Subsidized, Unsubsidized, Grad PLUS, Consolidation — but not Parent PLUS)</i>	Eligible Borrowers	% of Discretionary Income	Years to Forgiveness <i>(After X years of qualifying payments)</i>	Married Borrowers
Income-Contingent (ICR)	Direct Loans * Consolidation loans that repaid Parent PLUS are eligible	Direct Loan borrowers	The lesser of: 20% of discretionary income or a 12-year fixed payment (adjusted according to income)		Joint tax return = Combined debt + combined Income Separate tax return = Your debt + your Income (Plus option for joint repayment)
NEW Income-Based (New IBR)	Direct Loans	New borrower on or after 7/1/2014 (with no outstanding balance on any prior Direct or FFEL loans)	Generally 10% of discretionary income <i>Never more than the 10-year Standard Repayment amount</i>		Joint tax return = Combined debt + combined Income Separate tax return = Your debt + your Income
Income-Based (IBR)	Direct and FFEL Loans	Any borrower with eligible student loans	Generally 15% of discretionary income <i>Never more than the 10-year Standard Repayment amount</i>		Joint tax return = Combined debt + combined Income Separate tax return = Your debt + your Income
Pay As You Earn (PAYE)	Direct Loans	New borrower as of 10/1/2007 and Must have received a Direct Loan disbursement on or after 10/1/2011	Generally 10% of discretionary income <i>Never more than the 10-year Standard Repayment amount</i>		Joint tax return = Combined debt + combined Income Separate tax return = Your debt + your Income
Revised Pay As You Earn (REPAYE)	Direct Loans	Any borrower with eligible federal student loans	Generally 10% of discretionary income <i>No cap on the monthly payment amount</i>		Combined debt + combined Income

Taken from Access Group's "Federal Student Loan Repayment: The Road to Zero" brochure:
https://www.accessgroup.org/sites/default/files/loanrepaymentroadtozero-2016_webspreads.pdf

How Do You Choose An IDR Plan?

Those who
**qualify for
PAYE** should
choose
between...



PAYE (10%, 20 years)

REPAYE (10%, 25 years)

Those who
**DON'T qualify
for PAYE**
should choose
between...



Old IBR (15%, 25 years)

REPAYE (10%, 25 years)

Taken from: "Comparing IDR Repayment Plans For Grad/Prof Students" presentation at 2016 NASFAA national conference

Comparing **PAYE** and **REPAYE**

	Lowest Payment	Fastest Forgiveness	Option to Separate Income for Married Borrowers	Cap on Interest Capitalization	Cap on Interest Accrual	Monthly Payments Capped at 10-Year Standard Amount
PAYE	Yes	Yes	Yes	Yes	No	Yes
REPAYE	Yes	No	No	No	Yes	No

Taken from: "Comparing IDR Repayment Plans For Grad/Prof Students" presentation at 2016 NASFAA national conference

Comparing Old IBR and REPAYE

	Lowest Payment	Fastest Forgiveness	Option to Separate Income for Married Borrowers	Cap on Interest Capitalization	Cap on Interest Accrual	Monthly Payments Capped at 10-Year Standard Amount
Old IBR	No	No	Yes	No	No	Yes
REPAYE	Yes	No	No	No	Yes	No

Taken from: "Comparing IDR Repayment Plans For Grad/Prof Students" presentation at 2016 NASFAA national conference

What's this all actually look like with a \$50,000 starting salary?

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness ⓘ	Repayment Period
Standard ⓘ	\$1,761	\$1,761	\$211,357	\$0	120 months
Graduated ⓘ	\$1,012	\$3,035	\$226,462	\$0	120 months
Extended Fixed ⓘ	\$1,043	\$1,043	\$312,783	\$0	300 months
Extended Graduated ⓘ	\$831	\$1,527	\$339,568	\$0	300 months
Revised Pay As You Earn (REPAYE) ⓘ	\$268	\$1,084	\$179,229	\$186,600	300 months
Pay As You Earn (PAYE) ⓘ	\$268	\$823	\$120,770	\$234,564	240 months
Income-Based Repayment (IBR) ⓘ	\$402	\$1,627	\$268,844	\$135,072	300 months
IBR for New Borrowers ⓘ	\$268	\$823	\$120,770	\$234,564	240 months
Income-Contingent Repayment (ICR) ⓘ	\$635	\$1,929	\$348,758	\$0	281 months

Assumptions: average 2015 JD debt (\$155,777), single, no dependents
 Taken from the Federal Repayment Estimator at studentloans.gov

What will repayment look like with PSLF?

	STANDARD	IBR	PAYE	REPAYE
First Month's Payment	\$1,761	\$402	\$268	\$268
Final Payment	\$1,761	\$695	\$464	\$464
Total Amount Paid	\$211,356	\$64,606	\$43,071	\$43,071
Total Forgiveness	\$0	\$191,239	\$212,677	\$184,227
Repayment Period	120 months	120 months	120 months	120 months
Savings		\$204,238	\$77,699	\$136,158

Taken from the PSLF Forgiveness Estimator at studentloanhero.com

What's this all actually look like with an \$80,000 starting salary?

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness ⓘ	Repayment Period
Standard ⓘ	\$1,761	\$1,761	\$211,357	\$0	120 months
Graduated ⓘ	\$1,012	\$3,035	\$226,462	\$0	120 months
Extended Fixed ⓘ	\$1,043	\$1,043	\$312,783	\$0	300 months
Extended Graduated ⓘ	\$831	\$1,527	\$339,568	\$0	300 months
Revised Pay As You Earn (REPAYE) ⓘ	\$518	\$1,891	\$322,411	\$46,929	300 months
Pay As You Earn (PAYE) ⓘ	\$518	\$1,454	\$219,967	\$133,389	240 months
Income-Based Repayment (IBR) ⓘ	\$777	\$1,761	\$295,459	\$0	228 months
IBR for New Borrowers ⓘ	\$518	\$1,454	\$219,967	\$133,389	240 months
Income-Contingent Repayment (ICR) ⓘ	\$1,135	\$1,972	\$237,669	\$0	153 months

Assumptions: average 2015 JD debt (\$155,777), single, no dependents
 Taken from the Federal Repayment Estimator at studentloans.gov

What will repayment look like with PSLF?

	STANDARD	IBR	PAYE	REPAYE
First Month's Payment	\$1,761	\$777	\$518	\$518
Final Payment	\$1,761	\$1,277	\$851	\$851
Total Amount Paid	\$211,356	\$121,207	\$80,805	\$80,805
Total Forgiveness	\$0	\$130,596	\$175,081	\$165,319
Repayment Period	120 months	120 months	120 months	120 months
Savings		\$174,252	\$139,162	\$241,606

Taken from the PSLF Forgiveness Estimator at studentloanhero.com

What's this all actually look like with a \$160,000 starting salary?

Repayment Plan	First Monthly Payment	Last Monthly Payment	Total Amount Paid	Projected Loan Forgiveness ⓘ	Repayment Period
Standard ⓘ	\$1,761	\$1,761	\$211,357	\$0	120 months
Graduated ⓘ	\$1,012	\$3,035	\$226,462	\$0	120 months
Extended Fixed ⓘ	\$1,043	\$1,043	\$312,783	\$0	300 months
Extended Graduated ⓘ	\$831	\$1,527	\$339,568	\$0	300 months
Revised Pay As You Earn (REPAYE) ⓘ	\$1,185	\$2,199	\$233,462	\$0	146 months
Pay As You Earn (PAYE) ⓘ	\$1,185	\$1,761	\$234,437	\$0	152 months
Income-Based Repayment (IBR) ⓘ	-	-	-	-	-
IBR for New Borrowers ⓘ	\$1,185	\$1,761	\$234,437	\$0	152 months
Income-Contingent Repayment (ICR) ⓘ	\$2,303	\$2,475	\$192,659	\$0	81 months

Assumptions: average 2015 JD debt (\$155,777), single, no dependents
 Taken from the Federal Repayment Estimator at studentloans.gov

What about Perkins?

- Standard 10-year repayment plan only
- Check your Perkins MPN for more information about repayment and to review an estimated repayment schedule
- Perkins loans received while at Northwestern Pritzker Law are serviced by the Student Loan Office:
 - (847) 491-3125
 - studentloans@northwestern.edu

Consolidation vs. Refinancing

There is currently no such thing as federal loan refinancing!

- Federal student loans can be:
 - Consolidated into a Direct Consolidation Loan
 - Refinanced through a private lender
- Private student loans can be:
 - Refinanced through a private lender only

Federal Consolidation

Combining multiple federal student loans into one new Federal Direct Consolidation Loan with the Department of Education

- Consolidation Loan fixed interest rate:
 - Weighted average of interest rates on the loans being consolidated, rounded up to nearest 1/8th percent
- 10 to 30 year repayment timeline, depending upon repayment plan chosen
 - All IDR plans are available for Direct Consolidation Loans
- PSLF is available for Direct Consolidation Loans
- **Loss of Perkins loan cancellation and deferment options**

Private Refinancing

A lender pays off your existing loans and issues you a new **private** loan

- Pros:
 - Potentially lower interest rate (fixed or variable)
 - Potentially shorter repayment term
- Cons:
 - Generally not available to those with fair or poor credit
 - **LOSS OF FEDERAL LOAN PROTECTIONS, INCLUDING:**
 - **INCOME-DRIVEN REPAYMENT PLAN ELIGIBILITY**
 - **PUBLIC SERVICE LOAN FORGIVENESS ELIGIBILITY**
 - **GENEROUS FEDERAL DEFERMENT & FORBEARANCE OPTIONS**

Some Reasons to Consolidate...

- Convert FFEL or Perkins loans into a federal Direct Consolidation Loan for PSLF and certain repayment plan eligibility
- Multiple lenders? Simplify repayment by reducing down to one lender
- Lengthen repayment period to reduce monthly payment on federal student loan debt
- Change loan servicer

Should I consolidate my Perkins loan(s)?

Depends on what your job will be after graduation

- Perkins Loan Deferment and Cancellation

- If you're working as either a:

- Full-time lawyer with a public defender organization
 - Full-time Prosecuting Attorney for a federal, state, or local office

- ... then your Perkins Loan(s) could be cancelled as follows:

- 1st year of service: 15% of the loan balance
 - 2nd year of service: 15% of the loan balance
 - 3rd year of service: 20% of the loan balance
 - 4th year of service: 20% of the loan balance
 - 5th year of service: 30% of the loan balance

- ... and deferment of your Perkins payment is available for all 5 years

- Contact the Northwestern Student Loan Office for more details/eligibility info: (847) 491-3125 or studentloans@northwestern.edu

Resources

National Student Loan Data System (NSLDS):

- www.nslds.ed.gov

Free annual credit report:

- www.annualcreditreport.com

Federal Repayment Estimator:

- www.studentloans.gov (lower right)

Office of Federal Student Aid:

- www.studentaid.gov
 - <https://studentaid.ed.gov/sa/sites/default/files/income-driven-repayment-q-and-a.pdf>

Certified Financial Planner (CFP):

- www.cfp.net (national non-profit CFP Board website)

The “Ultimate Resource”

Your federally-assigned loan servicer!

- Contact them when you have questions about:
 - Pros and cons of each repayment plan based on your debt, income, and family size
 - Consolidating your loans
 - Help affording your payment:
 - Changing your monthly due date
 - Changing your repayment plan
 - Deferment
 - Forbearance

Northwestern Offices

Chicago Office of Financial Aid

- Abbott Hall, 6th floor
- Open Monday through Friday, 8:30am to 5pm
- Phone: (312) 503-8722
- Email: financial-aid-chicago@northwestern.edu

Office of Student Loans (Perkins questions)

- 555 Clark St, 3rd floor, Evanston
- Open Monday through Friday, 8:30am to 5pm
- Phone: (847) 491-3125
- Email: studentloans@northwestern.edu

Northwestern

CHICAGO OFFICE OF
FINANCIAL AID