

APRIL 2014

Loan Repayment – What Should I Be Doing Now?

With graduation rapidly approaching, many students have been asking questions about loan repayment and wondering what they should be doing now to prepare for it? Here are a few tips:

Visit the National Student Loan Data System at www.nslds.ed.gov to obtain a list of all your Federal loans, including your undergraduate and prior graduate school loans, if any. You will need your FAFSA PIN to access your loan account. To obtain private loan information, check your credit report at www.annualcreditreport.com.

After July 1, 2010, Fordham law students borrowed their Federal loans “directly” from the government through the Federal Direct Loan Program. **These are Direct Loans.** Prior to July 1, 2010, students may have borrowed their Federal loans through a bank or lending institution through the Federal Family Education Loan Program. **These are considered FFELP loans.** As an undergraduate or a prior graduate student, you may have borrowed FFELP or Direct Loans, depending upon the school you attended.

It may be important to distinguish between your **FFELP** and your **Direct** loans, particularly if you are planning to take advantage of the Pay As you Earn repayment plan and/or participate in the Federal Public Service Loan Forgiveness Program, as only **Direct and Direct Consolidation Loans** are eligible for each.

At nslds.ed.gov, your Direct loans will be listed as “Direct” loans. If the word direct does not appear before the loan, it is not a Direct loan. Click on each loan listed to determine the Federal loan servicer that is servicing the loan. If you have more than one Federal loan servicer, make certain that all know your current mailing address, as well as your e-mail address and telephone number, and promptly notify them of any changes.

Within the next few months, your lenders will be sending you information about loan repayment, in particular the date loan repayment will begin and the current balance. If you have not heard from a lender concerning repayment at least one month prior to graduation, contact the lender. Remember, you are responsible for beginning repayment of your loans on time even if you do not receive repayment information from your lender.

When Will Repayment of My Loans Begin?

The Federal Direct Subsidized and Unsubsidized loans you borrowed while in law school have a six-month grace period. At the end of the grace period, these loans will go into “repayment status.” The actual first payment will become due 30 to 60 days after the loans go into “repayment.” Grad PLUS loans have no grace period, but those loans first disbursed after 7/1/08 are eligible for an automatic six-month post-enrollment deferment, during which time interest will accrue.

If you borrowed as an undergraduate or in a previous graduate program and used up the grace period, you may be required to make payments on those loans very shortly after graduation. If you are not in a position to do so, you will need to contact the servicer of those loans concerning a deferment.

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It is very important that you know who is servicing each of your loans.

Federal Loan Repayment Options

Your Federal **Direct** (Subsidized and Unsubsidized) and your **Grad PLUS** Loans have the following repayment options:

Extending the repayment term of your loan, thereby lowering your monthly payments, increases the amount of interest you will pay over the life of the loan

Standard Repayment - you will pay an equal amount each month throughout the ten-year repayment term. All payments include both interest and principal. This plan will cost the least in total interest paid over the life of the loan.

Graduated Repayment - you start off with lower payments which gradually increase every two years for a period of ten years. Good choice for graduates who have accepted a one or two-year clerkship or will be employed by a firm or organization known for its low starting salaries but then provides aggressive raises in the future.

Extended Repayment - Depending upon the amount borrowed, you can extend the repayment term up to 25 years. You must have more than \$30,000 in FFEL Loans and \$30,000 in Direct Loans to obtain this repayment option for each of those loans. There's a **Fixed Extended** or a **Graduated Extended** Plan from which you may choose. Keep in mind that stretching out the payments over a longer term reduces the size of each payment, but increases the total amount repaid over the lifetime of the loan. You will pay more interest over the life of the loan on the Graduated Extended than you would on the Fixed Extended.

Income Driven Repayment Plans: Should be considered by borrowers with high student loan debt relative to income.

Income-Sensitive Repayment – This Plan is available only for your FFELP Loans. Monthly payments are based on your expected total monthly gross income and federal loan debt. Payments are adjusted annually and the repayment term is ten years.

Income-Contingent Repayment (ICR) – This Plan is similar to the Income Sensitive Plan, and is available **only to Federal Direct Loan and Federal Direct Consolidation Loan borrowers**. Payments are based on the borrower's annual income, Direct Loan balance and family size and are spread over a term of up to 25 years. Monthly payments are adjusted each year as your income changes. At the end of 25 years, any balance remaining will be forgiven but the amount forgiven is considered taxable income.

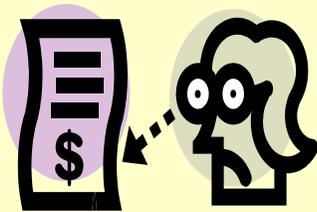
Income-Based Repayment (IBR) – IBR limits student loan repayments to 15% of Discretionary Income, if the borrower is experiencing a partial financial hardship.

Discretionary Income is the difference between the borrower's Adjusted Gross Income (AGI) and 150% of the poverty guideline amount for the borrower's family size in the state in which the borrower resides.

Borrowers are experiencing a partial financial hardship if their loan repayments under IBR are less than they would have to pay on their total debt on a ten-year repayment plan.

For married borrowers, if they file their federal taxes as "married-filing separately," only the adjusted gross income of the individual borrower will count. At the end of 25 years, any outstanding principal and accrued interest is forgiven on all loans, but the amount forgiven is considered taxable income.

Under IBR, your payments will change as your income and family size change.



Be sure to pick a repayment plan that fits within your budget. If you do not choose a plan, you will be placed on the Standard ten year Repayment Plan. Under this plan, you will pay the highest monthly payment, but the least amount of interest over the life of the loan.

IBR (continued)

The calculation for IBR is fairly simple. Consider the following:

Total Federal Debt = \$150,000
 Adjusted Gross Income = \$ 50,000
 2014 Poverty Level for a Family of One = \$ 11,670

First you take 150% of the poverty guideline for your family size in the state in which you reside. Then you deduct that amount from your Adjusted Gross Income. Then you take 15% of that amount and divide by 12 months to get your monthly loan repayment under IBR:

\$11,670	\$50,000 (AGI)
<u>x 150%</u>	<u>- 17,505 (150% of the Poverty Level)</u>
\$17,505	\$32,495
\$32,495	<u>\$4,874.25 = \$406.19 monthly payment under IBR</u>
<u>x 15%</u>	<u>12</u>
\$4,874.25	

Stay with me now because the new Pay As You Earn Repayment Plan utilizes the same formula, but it is **10%** of your Discretionary Income, not **15%**, and forgiveness kicks in after **20** years, not **25**.

Pay as You Earn (PAYE) Only borrowers who obtained their first FFELP or Direct Loan on/after 10/1/07 or had no outstanding FFELP or Direct Loan balance when they obtained a loan after 10/1/07 **AND** who obtained a new Direct Loan disbursement on/after 10/1/11 are eligible for PAYE.

Borrowers cannot consolidate those loans borrowed prior to 10/1/07 to become eligible for PAYE.

PAYE requires the borrower to have the same partial financial hardship as under IBR; it has the same annual documentation requirements as IBR; and has the same rules for married borrowers. However, PAYE provides a 10% limit on the amount of the negatively amortized interest that can be capitalized. Under IBR, there is no limit to the amount of interest that can be capitalized once the borrower is no longer eligible for IBR.

Using the same example as under the IBR calculation, the borrower who chose PAYE would pay 10% of \$32,495 or \$3,249.50 divided by 12 months for a monthly payment of \$270.79.

Under PAYE, your payments will change as your income and family size change.

How Much Will I Have to Pay Each Month?

It is very important for you to know whether or not you can afford to pay the minimum payments you will be expected to make on each of your education loans. Use the on-line calculators provided by your servicers or at www.studentloans.gov or at www.finaid.org to estimate the monthly payments for each of your loans.

Poverty Guidelines for 48 contiguous States (Alaska & Hawaii are different)

Family Size	2014 Poverty Level	150%
1	\$11,670	\$17,505
2	\$15,730	\$23,595
3	\$19,790	\$29,685
4	\$23,850	\$35,775
5	\$27,910	\$41,865
6	\$31,970	\$47,955

Amortization: *The gradual elimination of a debt over a specified period of time through periodic payments.*

Negative Amortization: *Occurs when the amount of the borrower's monthly payment is less than the amount of interest that accrued on the loan for that period. When this occurs, the unpaid interest may be added to principal at some point, thereby increasing the amount of the debt upon which future interest is calculated.*

Capitalization: *A process whereby a lender adds any unpaid interest to the principal of the loan, thereby increasing the outstanding balance on which interest accrues. How often a lender capitalizes the interest will affect the ultimate cost of the loan.*

How to Apply for IBR, ICR, PAYE

To apply for IBR, ICR, PAYE or the lowest possible loan repayment, you can log on to www.StudentLoans.gov to access the eApplication directly or go to your loan servicers' website to access it.

The eApplication uses the IRS Data Retrieval Tool which retrieves your most recent tax information. The eApplication will be electronically transmitted to your loan servicer and no follow up will be necessary unless your prior year's income is unavailable or you are required to submit alternative documentation.

IBR, ICR and PAYE loan repayments are based on your prior year's Adjusted Gross Income. Shortly before the anniversary date of your initial application, you will be required to provide updated income information. If your prior year's tax return does not substantially represent your current financial situation, you will be required to complete the alternative documentation application.

The eApplication can be used for your initial application, as well as your annual recertification.

Be sure to print out the confirmation and be careful to note whether the application has been sent to all your loan servicers. For those servicers to whom your eApplication has not been sent, you will need to apply for the repayment plan of your choice directly with those servicers.

www.StudentLoans.gov is a valuable resource for all Federal loan borrowers.

Financial Aid Office Loan Repayment Sessions

Below is a list of the dates and times for the Loan Repayment Sessions:

Loan Repayment Strategies

Wednesday, March 26th | 5:00-6:00pm | Room 310

Tuesday, April 1st | 1:00-2:00pm | Room 205

Thursday, April 3rd | 1:00-2:00pm | Room 205

Tuesday, April 8th | 1:00-2:00pm | Room 205

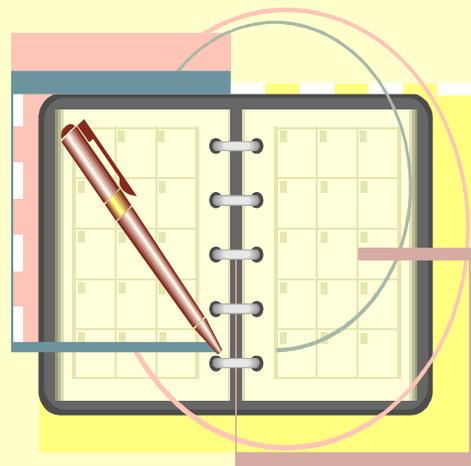
Wednesday, April 9th | 5:00-6:00pm | Room 310

Federal Public Service Loan Forgiveness/Income Driven Repayment Plans

Thursday, March 27th | 1:00-2:00pm | Room 205

Wednesday, April 2nd | 5:00-6:00pm | Room 310

Thursday, April 10th | 1:00-2:00pm | Room 205



BE SURE TO MARK YOUR CALENDAR

Inquiries concerning this Newsletter may be directed to kkeenan@law.fordham.edu.