MI Student Aid

www.michigan.gov/mistudentaid

Michigan Department of Treasury
Office of Post-Secondary Financial Planning

Student Loans and Debt Management

Today's Agenda

- Federal Student Loans
- Repayment Options
  - Grace Period
  - Loan Servicers
  - Deferment/Forbearance
- Repayment Plans
- Forgiveness Options
- Private Vs. Federal Loans
- Strategies for Taking Out Loans
- Q & A

Federal Student Loans

<u>William D. Ford Federal Direct Loan Program</u>: Consist of four different types of loans.

- *<u>Direct Subsidized Loan</u>*: Made to eligible undergraduate students who demonstrate financial need.
- *<u>Direct Unsubsidized Loan</u>: Made to eligible undergraduate*, graduate, *and professional students, but eligibility is not based on financial need.*
- *<u>Direct PLUS Loan</u>: Made to* graduate or professional *students and parents of dependent undergraduate students.*
- *<u>Direct Consolidation Loan</u>*: Allows you to combine all your eligible federal student loans into a single loan with a single loan servicer.

https://studentaid.gov/understand-aid/types/loans

Federal Subsidized Loan

- Applied for by submitting the FAFSA.
- You must be attending at least half-time.
- Student must demonstrate financial need.
- School determines amount you can borrow, and the amount may not exceed your financial need.
- The U.S. Department of Education pays the interest on loan while you are enrolled at least half time, for the first six months after you leave school, and during a period of deferment.
- Interest rate changes year-to-year.
- Subsidized loans made on or after 7/1/20 and before 7/1/2021 have an interest rate of 2.75% for undergraduate students.

https://studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized

Federal Unsubsidized Loan

- Applied for by submitting the FAFSA.
- You must be attending at least half-time.
- Student does not have to demonstrate financial need.
- School determines amount you can borrow based on COA and other financial aid you receive.
- Student is responsible for paying the interest during all periods.
- Interest rate changes year-to-year.
- Unsubsidized loans made on or after 7/1/20 and before 7/1/2021 have an interest rate of 2.75% for undergraduate students.

https://studentaid.gov/understand-aid/types/loans/subsidized-unsubsidized

Direct PLUS Loans

- Available to parents of dependent undergraduate students or to graduate and professional students.
- Commonly referred to as parent PLUS loan when made to parent and as a grad PLUS loan when made to a graduate or professional student.
- To receive a PLUS loan, the student must complete the FAFSA.
- Submit PLUS loan application; Available online, but some schools have different application processes. Check with your college before you apply.
- Be enrolled at least half-time at an eligible school.
- Maximum loan amount is the cost of attendance minus any other financial aid received.
- Must not have an adverse credit history.
  - A credit check will be performed during the application process.
  - If parent or grad student has an adverse credit history, may still be eligible if they meet additional requirements.

https://studentaid.gov/understand-aid/types/loans/plus

Direct PLUS Loans

- **<u>Adverse Credit History</u>**: If you have an adverse credit history, you may still receive a Direct PLUS Loan through one of the following:
  - Endorser/Co-signer: Someone who does not have an adverse credit history who agrees to repay the loan if you do not.
  - Documenting to the satisfaction of the U.S. Department of Education that there are extenuating circumstances relating to your adverse credit history.

- **<u>What is an Adverse Credit History</u>**?
  - A current delinquency of 90 or more days on more than $2,085 in total debt; or
  - More than $2,085 in total debt in collections or charged off in the past two years (before the date of the credit report); or
  - Default, bankruptcy discharge, foreclosure, repossession, tax lien, wage garnishment, or write-off of federal student loan debt in the past five years (before the date of the credit report)

https://studentaid.gov/understand-aid/types/loans/plus

Direct PLUS Loans – Interest & Fees

- For Direct PLUS Loans first disbursed on or after July 1, 2020, and before July 1, 2021, the interest rate is 5.30%. This is a fixed interest rate for the life of the loan.
- There is a loan fee, which is a percentage of the loan amount, associated with all Direct PLUS Loans.

Loan Fees for Direct PLUS Loans	
First Disbursement Date	Loan Fee
On or after Oct. 1st, 2018 and before Oct. 1, 2019	4.248%
On or after Oct. 1, 2019 and before Oct. 1, 2020	4.236%

- Loans first disbursed before Oct. 1, 2018, have different loan fees.

https://studentaid.gov/understand-aid/types/loans/plus/parent

Direct Consolidation Loan

- Allows you to combine multiple federal education loans into a single loan with a single loan servicer.
- Provided fixed interest rate based on the average of the interest rates on the loans being consolidated.
- Results in a single monthly payment instead of multiple payments.
- Must complete the Federal Direct Consolidation Loan Application and Promissory Note.
- There is no application fee to consolidate your federal loans into a Direct Consolidation Loan.
- There are companies that contact students and offer consolidation for a fee. There is no need to pay anyone for assistance as the process is easy and free.

https://studentaid.gov/manage-loans/consolidation

Direct Consolidation Loans

Pros

- If you currently have federal student loans that are w/ different loan servicers, consolidation can greatly simplify loan repayment by giving you a single loan with just one monthly bill.
- Consolidation can lower your monthly payment by giving you a longer period (up to 30 years) to repay your loans.
- If you consolidate loans other than Direct Loans, it may give you access to additional income-driven repayment options and Public Service Loan Forgiveness.
- You'll be able to switch any variable-rate loans you have to a fixed interest rate.

Cons

- Considering consolidation increases the period of time you have to pay your loans; you might make more payments and pay more in interest.
- Any outstanding interest on current loans are added to the principal balance when you consolidate, so you may accrue interest on a higher principal amount.
- May cause you to lose certain borrower benefits, such as interest-rate discounts, principal rebates, or some loan cancellation benefits that are associated with your current loans.
- If you're paying your current loans under an income-driven repayment plan, or if you've made qualifying payments toward Public Service Loan Forgiveness, consolidating your current loans will cause you to lose credit for any payment made toward income-driven repayment plan forgiveness or Public Service Loan Forgiveness.

https://studentaid.gov/manage-loans/consolidation

REPAYMENT OPTIONS

Grace Periods, Loan Servicers, & Deferment/Forbearance

Grace Periods

- <u>Grace Period</u>
  - An amount of time after you graduate, leave school, or drop below half-time enrollment before you must start paying back your loans.
- Interest does accrue during the grace period, except for the Direct Subsidized Loan, and is added to your principal balance when you begin repayment.
- The grace period is typically six months, but it can vary based on
    - The type of loan you received
    - How much money you borrowed
    - The interest rate on your loan
    - The repayment plan you have chosen
  - PLUS loan repayment begins as soon as disbursement is made but may be eligible for deferment.

https://studentaid.gov/manage-loans/repayment

Loan Servicers

- <u>Loan Servicers</u>
  - A company assigned by the U.S. Dept. of Ed, that handles the billing and other servicers on your federal student loan.
- Loan servicers assist with the following:
  - Repayment Plans
  - Loan Consolidation
  - Other services and assistance
- To view information about all the federal student loans you have received and to find contact information for the loan servicer or lender for your loans log-in to your Federal Student Aid account using your FSA ID credentials.
  - https://studentaid.ed.gov or https://studentloans.gov

https://studentaid.gov/manage-loans/repayment/servicers

Deferment/Forbearance

- **Deferment/Forbearance**: If you meet certain criteria, this allows you to temporarily stop making payments or to temporarily reduce your monthly payment amount for a specified period.
  - **Difference**: With deferment, you may not be responsible for paying the interest that accrues on certain types of loans.
  - During a period of forbearance you are responsible for paying the interest that accrues on all types of federal student loans.
    - You can pay the interest during deferment/forbearance (as it accrues).
    - You can pay the interest at the end of deferment/forbearance (once it is capitalized).
  - You may be **eligible for a deferment** due to but not limited to the following:
    - While you are enrolled in an eligible college or career school at least half-time.
    - If you received a Direct PLUS Loan or FFEL PLUS Loan as a graduate or professional student, for an additional six months after you cease to be enrolled.
    - While you are enrolled in an approved graduate fellowship program.
    - While you are unemployed or unable to find full-time employment, for up to three years
    - While experiencing economic hardship or serving in the Peace Corps, for up to three years.

https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief/deferment

Deferment – Interest fees vs. No Int. Fees

Loan Types Where You Are Generally NOT Responsible for Paying the Interest That Accrues	**Loan Types Where You Are Responsible for Paying the Interest That Accrues**
Direct Subsidized Loans	Direct Unsubsidized Loans
Subsidized Federal Stafford Loans	Unsubsidized Federal Stafford Loans
Federal Perkins Loans	Direct PLUS Loans
The subsidized portion of Direct Consolidation Loans	Federal Family Education Loan (FFEL) PLUS Loans
The subsidized portion of FFEL Consolidation Loans	The unsubsidized portion of Direct Consolidation Loans
	The unsubsidized portion of FFEL Consolidation Loans

https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief/deferment

Deferment/Forbearance

- **Forbearance:** There are two types of forbearance.
  - General: At the loan servicers discretion, you may be granted a general forbearance if you are temporarily unable to make monthly loan payments for the following:
    - Financial difficulties
    - Medical Expenses
    - Change in employment
    - Other reasons acceptable to your loan servicer
  - Mandatory: If you meet the certain eligibility requirements for a mandatory forbearance your loan servicer is required to grant the forbearance.

https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief/forbearance

REPAYMENT PLANS

Repaying Direct and Federal Family Education Loans

Repayment Plans

- **Standardized Repayment Plan**
  - Plan you will be placed on by your loan servicer if you do not select a repayment plan. Pays off loan in the shortest time as payments may be higher than other plans, and it accumulates least amount of interest.
    - Payments: Fixed amount of at least $50
    - Time Frame: Up to 10 yrs. (up to 30 yrs. for Consolidation Loans)
    - Eligibility: All borrowers w/ Direct, Stafford, and FFEL Loans
- **Graduated Repayment Plan**
  - For individuals who have a low income but expect it to increase steadily over time.
    - Payments: Start out low and increase every two years. Never less than the amt. of interest that accrues between ea. payment or more than 3x greater than any other pmt.
    - Time Frame: Up to 10 yrs. (up to 30 yrs. for Consolidation Loans).
    - Eligibility: All borrowers w/ Direct, Stafford, and FFEL Loans

https://studentaid.gov/manage-loans/repayment/plans/standard
https://studentaid.gov/manage-loans/repayment/plans/graduated

Repayment Plans

- **<u>Extended Repayment Plan</u>:**
  - For individuals who need to make lower monthly payments over a longer period. You'll pay more over time.
    - Payments: Fixed or graduated amount, generally lower than payments made under Standard or Graduated Repayment Plans.
    - Time Frame: Up to 25 yrs.
    - Eligibility: Direct Loan borrower w/ more than $30,000 outstanding, and FFEL borrower w/ more than $30,000 outstanding.
- **<u>Income-Driven Repayment Plans</u>**
  - An income-driven repayment plan sets your monthly loan payment at an amount that is intended to be affordable based on your income and family size. You can complete the application using the IRS Data Retrieval Tool at https://studentloans.gov
    - Revised Pay As You Earn Repayment Plan {REPAYE}
    - Income-Based Repayment Plan {IBR}
    - Income-Contingent Repayment Plan {ICR}
    - Income-Sensitive Repayment Plan

https://studentaid.gov/manage-loans/repayment/plans/income-driven
https://studentaid.gov/manage-loans/repayment/plans/extended

Income-Driven Repayment Plans

- **<u>Revised Pay As You Earn {REPAYE}:</u>**
  - Payment: Generally 10% of discretionary income.
  - Time Frame
    - 20 years for loans received during undergraduate study.
    - 25 years if any loans were received during graduate or professional study.

- **<u>Pay As You Earn {PAYE}:</u>**
  - Payment: Generally 10% of your discretionary income, but never more than the 10-year Standard Repayment Plan.
  - Time Frame: 20 years

https://studentaid.gov/manage-loans/repayment/plans/income-driven

Income-Driven Repayment Plans

- **Income-Based Repayment {IBR}:**
  - Payment: Generally 10% of your discretionary income if you're a new borrower on or after July 1st, 2014, but never more than the 10-year Standard Repayment Plan amount.
  - Time Frame
    - 20 yrs. if you're a new borrower on or after July 1st, 2014.
    - 25 yrs. if you're not a new borrower on or after July 1st, 2014.

- **Income-Contingent Repayment {ICR}:**
  - Payment: The lesser of the following:
    - 20% of discretionary income or
    - What you would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to your income.
  - Time Frame: 25 years.

https://studentaid.gov/manage-loans/repayment/plans/income-driven

FORGIVENESS OPTIONS

Forgiveness, Cancellation, and Discharge

Public Service Loan Forgiveness

- **<u>Public Service Loan Forgiveness</u>**
  - Forgives the remaining balance on your Direct Loans after you have made 120 qualifying payments under a qualifying repayment plan while working full-time for a qualifying employer.
    - Must work for a government organization (federal, state, local, or tribal), Not-for-profit org. that is tax-exempt as a 501(c)(3), or a non-profit that doesn't fall under the 501(c)(3) section, but whose primary purpose is to provide certain types of qualifying public services
      - Emergency management
      - Military service
      - Public safety, public education, public health, public library services, public services for the elderly or disabled
      - Law enforcement
      - Public interest law services
      - Early childhood education
      - Other school-based services
      - AmeriCorps or Peace Corps full-time volunteer

https://studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service

Public Service Loan Forgiveness

- **Full-time Employment Requirement**
  - You meet your employer's definition of full-time or work at least 30 hrs. per week, which ever is greater.
  - If you work part-time for more than one qualifying employer and average 30 hrs. a week between the two you may meet the requirement.
  - If employed by a non-profit organization, time spent on religious instruction, worship service, or any form of proselytizing may not be counted toward meeting the requirement.
- **Qualifying Loans**
  - Any non-defaulted loan received under the William D. Ford Direct Loan Program (Direct Loans).
  - Loans from the Federal Family Education Loan Program and the Federal Perkins Loan Program may become eligible **IF** consolidated into a **Direct Consolidation Loan.**
    - Only payments made on the Direct Consolidation Loan can be counted towards the 120 payment req.

https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service

Teacher Loan Forgiveness

- **<u>Teacher Loan Forgiveness</u>**
  - Must teach full-time for five complete and consecutive academic years in a low-income elementary and secondary schools, or for educational service agencies.
    - Must be determined by U.S. Department of ED that more than 30% of total students enrolled qualifies for free/reduced lunch.
    - School must be listed in Annual Directory of Designated Low-Income Schools for Teacher Cancellation Benefits.
    - Apply for teacher loan forgiveness after you have completed the five-year teaching requirement.
    - Eligible loans include Direct and FFEL Loans, up to $17,500.

https://studentaid.gov/manage-loans/forgiveness-cancellation/teacher

Other Discharge/Cancellations

- Closed School Discharge
- Perkins Loan Cancellation & Discharge
- Total & Permanent Disability Discharge
- Discharge Due to Death
- Discharge in Bankruptcy (in rare cases)
- Borrower Defense to Repayment
- False Certification Discharge
- Unpaid Refund Discharge

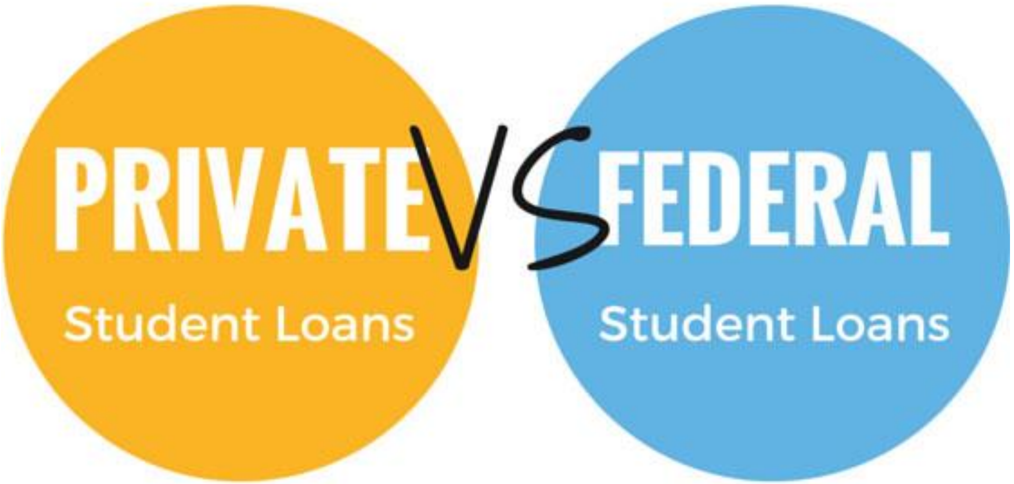
https://studentaid.gov/manage-loans/forgiveness-cancellation

PRIVATE SECTOR LOANS

Navigating Loans In The Private Sector

Private Student Loans

- **<u>Private Student Loans</u>**: Loans that are non-federal loans, made by a lender such as a bank, credit union, state agency, or a school.
- **<u>Factors in Private Loans</u>**:
  - Credit Score
  - Interest Rate
  - Repayment
  - Loan minimum and maximum
  - Loan fees
  - Borrower rewards/repayment incentives and benefits.



https://www.estudentloan.com/student-loans/private-student-loans

Private Vs. Federal

- Credit Score
  - With private loans credit is a major factor compared to most federal loans which don't require a credit check and can help students establish a good credit record.
- Interest Rate
  - Private loans can have variable interest rates, some greater than 18%, while federal student loans offer interest rates that are fixed and often lower than private loans.
  - There is no subsidizing of interest for private loans.
- Repayment
  - With federal loans you get a grace period, but many private loans require payments while in school.
  - Private loans cannot be consolidated into a Direct Consolidation Loan.
  - Private loans may have pre-payment penalties.
- Loan Minimums/Maximums
  - Private loans usually have a minimum that can be borrowed, as with federal loans you can send back unused/wanted funds.

https://studentaid.gov/understand-aid/types/loans/federal-vs-private

Private Vs. Federal

- Loan Fees
  - Private loans may have loan fees that are more expensive that what the federal student loan fees are.
    - Deducted from the loan amount vs. added to the loan amount.
    - There may be other loan fees associated w/ private loans. Be sure to thoroughly read the terms & conditions.
  - Borrower Rewards/Incentives
    - Some lenders of private loans offer repayment incentives, such as interest rate reduction, and co-signer release for making several consecutive payments on time.

Strategies for Taking Out Loans

- Apply for financial aid
  - Accept loans offered through your financial aid award before taking out private loans.
- Cut Cost
  - Stay at home or w/ a roommate, don't get a car, buy used textbooks.
- Search for Free Money!
- Public Service Careers
- Course-load/Flat-rates
- Monthly loan payments should not exceed 10% of monthly take-home pay during the first year, post-graduation
- Total loan debt should not exceed projected first year post-graduation annual salary

https://bigfuture.collegeboard.org/pay-for-college/loans/college-loans-your-strategy
https://studentloanhero.com/featured/ultimate-guide-paying-off-student-loans-faster/

Q & A

MI Student Aid

Accessible • Affordable • Attainable

Phone: 1-888-447-2687

Email: mistudentaid@michigan.gov

Web: www.michigan.gov/mistudentaid

@mistudentaid

Michigan Department of TREASURY

Thank you!

Charles Rozier
MI Student Aid-Outreach Analyst
Office of Postsecondary Financial Planning
Michigan Department of Treasury
Office: 517-335-8842
rozierc2@Michigan.gov

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