



Today's Plan

- Current events in the student loan world
- Quick review of the basics
- How-to approach a student loan case
- Step-by-step through the weeds





\$350 million dollars



To err is human; to forgive,
divine

There are two different kinds of federal
student loan forgiveness

If your client still has a balance
after making income-driven
payments for 20 or 25 years

The balance is forgiven
but the forgiven amount is taxed as income

If your client still has a balance
after making 120 “qualifying
payments” towards Public
Service Loan Forgiveness

The balance is forgiven
TAX FREE!

Count *payments*.

...99,
100,
101,
102...



Forgiveness is tied to repayment

Income-driven repayment plans are necessary for **BOTH** long-term, income-driven forgiveness and public service forgiveness

What's up with interest rates?

Expect your clients to have a variety of interest rates ranging from super low to shockingly high

- Before 2006, federal loans had variable interest rates
- Since 2006, **new** federal loans are at fixed interest rates set by Congress
- Beginning July 1, 2013, federal student loan interest rates are tied to the market
- Private student loan interest rates are based on creditworthiness

4.45 %
until
6/31/18

- Rates for subsidized loans and unsubsidized loans to undergraduate students are:

- **10-year Treasury rate plus 2.05 percentage points, capped at 8.25 percent**

6.0 %
until
6/31/18

- Rates for unsubsidized loans to graduate students are:

- **10-year Treasury rate plus 3.60 percentage points, capped at 9.50 percent**

7.0 %
until
6/31/18

- Rates for GradPLUS and Parent PLUS loans are:

- **10-year Treasury rate plus 4.60 percentage points, capped at 10.50 percent**

The total cost to the borrower depends upon:

1. Principal balance
2. Interest
 - Rate
 - Time
 - Capitalization
3. Whether *the borrower* will repay the entire obligation

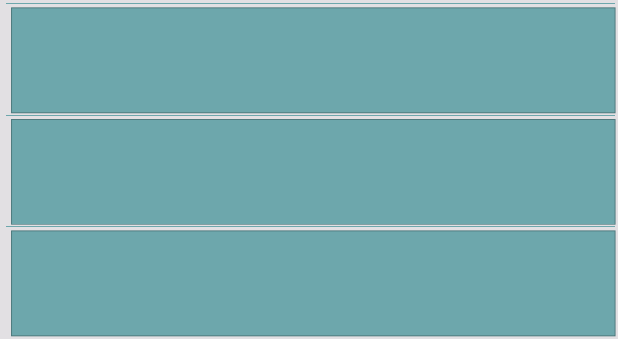
How to make a personalized student debt management plan your client can rely on

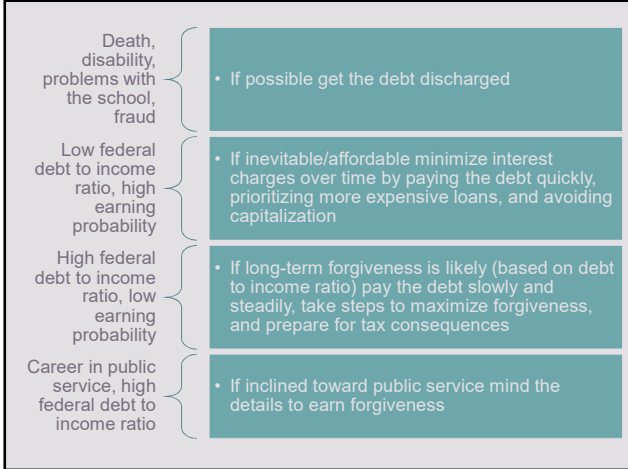
- ✓ Select goals by multiple choice so you've considered each scenario
- ✓ Understand why you must know a ridiculous number of details
- ✓ Establish a client's options by plugging client details into the rules
- ✓ Weigh the trade-offs between the options you've identified
- ✓ Choose a goal-oriented strategy with confidence knowing you've considered all the options
- ✓ Avoid traps for the unwary

Selecting goals by multiple choice ensures you've considered every scenario

There are only so many possibilities

If possible get the debt discharged



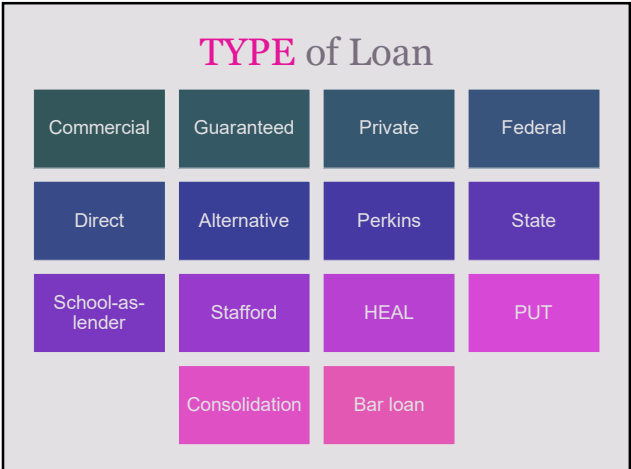


Understand that you must know a ridiculous number of details

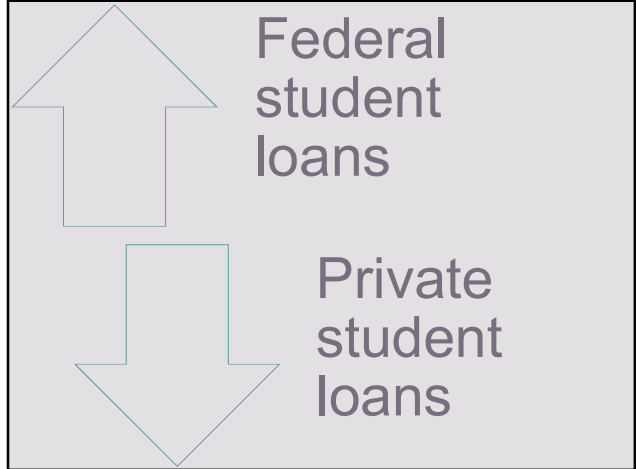
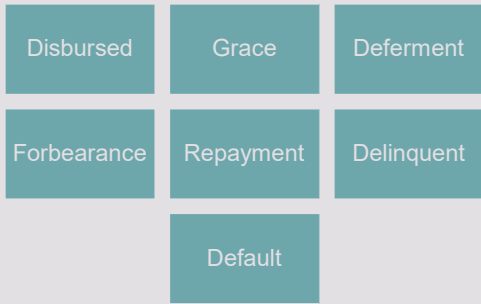
Getting used to the fact that it is the way it is

A great plan starts with clear information

Repayment and forgiveness options depend upon the loan **TYPE**, the loan **STATUS**, the terms of the loan and characteristics of **the borrower**



Loan **STATUS** in a nutshell



Where and how to efficiently find all those details that matter

Databases and reports and online interfaces

In every case, do these things:

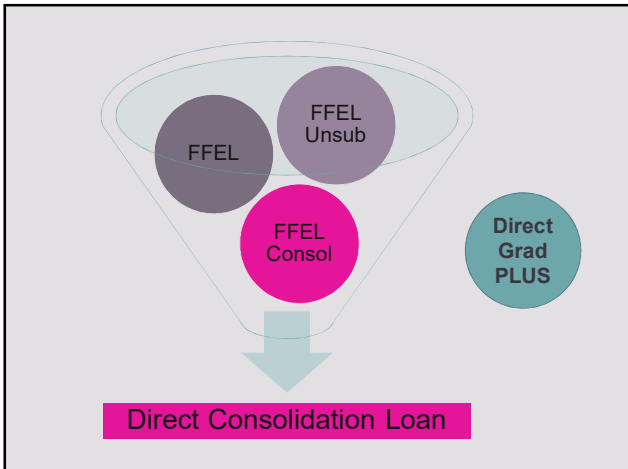
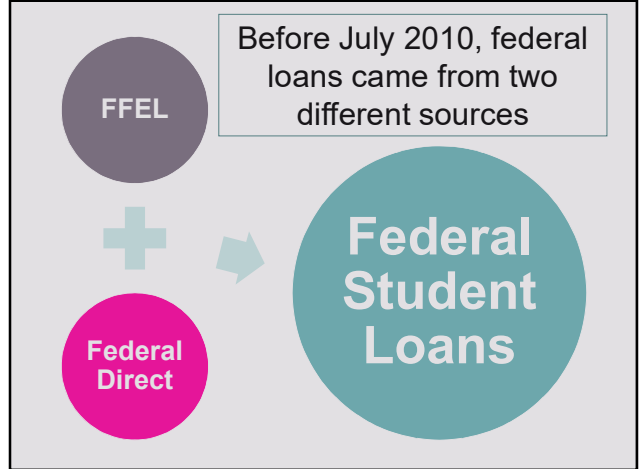
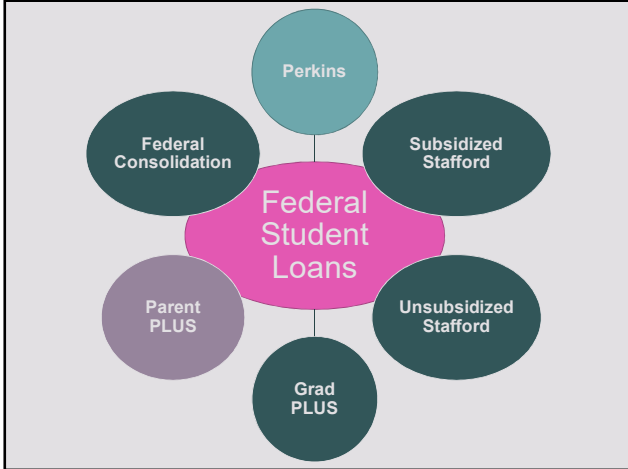
1. Inventory the private loans

- Make a list from the credit report
- Get the Promissory Note

2. Inventory the federal loans

- Use the National Student Loan Data System (NSLDS)

Assume your client doesn't know



Private student loans



Private student loans

Co-signor

- Release provision?

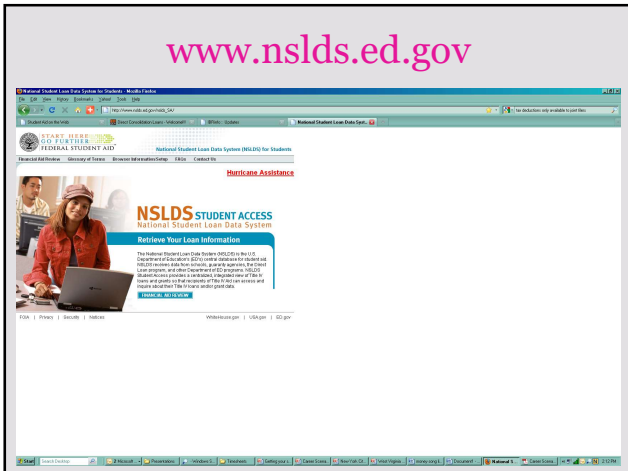
Interest rate

- Variable? Capped?

Potential to refinance

- Creditworthiness?
- Risks of including federal loans

www.nsls.ed.gov



The Fast and the Furious



Private refinancing 2017

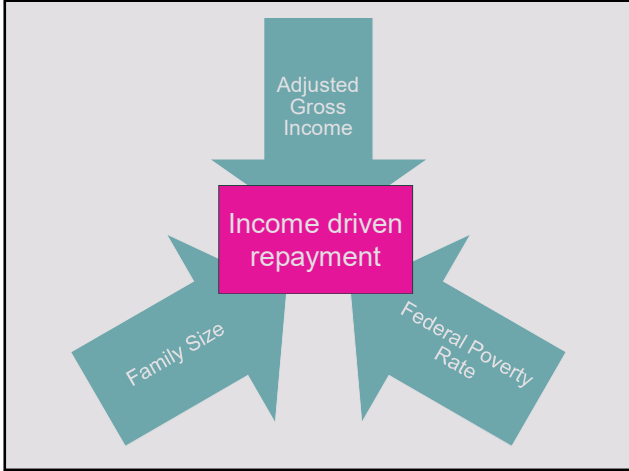
- Average credit score: 764
- Applications denied: 58.07%
- Average interest rate: 5.56%
- Cosigner: 33.21%



Comparing repayment plans

Federal Student Loans






Payments are **10 or 15 percent** of “discretionary income”

Long-term forgiveness takes either **20 or 25 years**
Public Service Loan Forgiveness takes **120 “qualifying” payments**

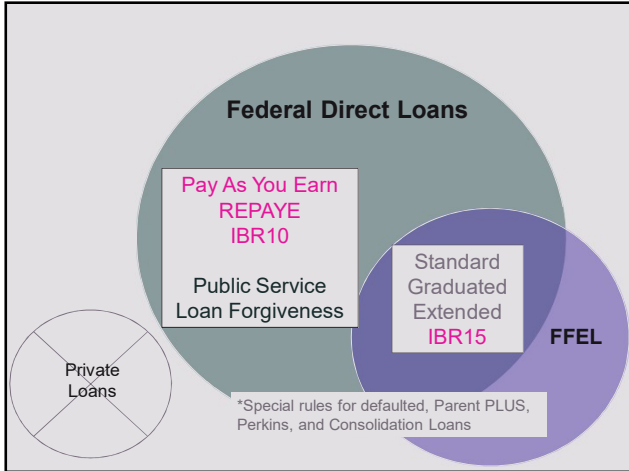
Married student loan borrowers must choose:

- File taxes jointly and have monthly payment based on joint AGI and combined student debt, *or*
- File taxes separately and have monthly payment based on individual AGI and individual student debt (except under REPAYE)



Eligibility for plans depends upon

FFEL or Direct Loans
Debt-to-income ratio
Borrowing dates



Forgiveness is tied to repayment

Income-driven repayment plans are necessary for BOTH long-term, income-driven forgiveness and public service forgiveness

Forgiveness projections are only as good as your assumptions about future income

- Will there be a balance left to forgive after the borrower makes the required payments?
- If yes, will the total out-of-pocket costs (including higher taxes for filing separately and projected taxation of forgiveness) be lower than the alternative?
- What is the alternative anyway?

- When evaluating an income-driven plan, it makes sense to consider:
- Eligibility requirements
 - Lowest payment
 - Fastest forgiveness
 - Treatment of spousal income
 - Limits on interest accrual and capitalization

Old IBR	New IBR	PAYE	REPAYE
15% of joint or separate income	10% of joint or separate income	10% of joint or separate income	10% of income
			Always based on BOTH spouses' income

Old IBR	New IBR	PAYE	REPAYE
Partial Financial Hardship required	Partial Financial Hardship required	Partial Financial Hardship required	No Partial Financial Hardship required
Doesn't matter when you borrowed	No balance on a federal loan on July 1, 2014	No balance on a federal loan on Oct 1, 2007	Doesn't matter when you borrowed
		Federal loan disbursed on or after Oct 1, 2011	

Old IBR	New IBR	PAYE	REPAYE
25 years or PSLF	20 years or PSLF	20 years or PSLF	20 years for borrowers with only undergrad loans
			25 years for borrowers with any graduate or professional loans
			PSLF

Old IBR	New IBR	PAYE	REPAYE
Monthly payments capped at 10 year standard amount	Monthly payments capped at 10 year standard amount	Monthly payments capped at 10 year standard amount	Monthly payments always driven by income

Old IBR	New IBR	PAYE	REPAYE
No special limitation to interest capitalization or accrual	No special limitation to interest capitalization or accrual	Capitalization limited to 10 percent of principal balance	Just 50 percent of interest accrues during periods of negative amortization

PAYE caps **capitalization**

REPAYE caps **interest accrual**

IBR does neither

Nobody should choose New IBR ever

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

- PAYE
- REPAYE

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

- Old IBR
- REPAYE

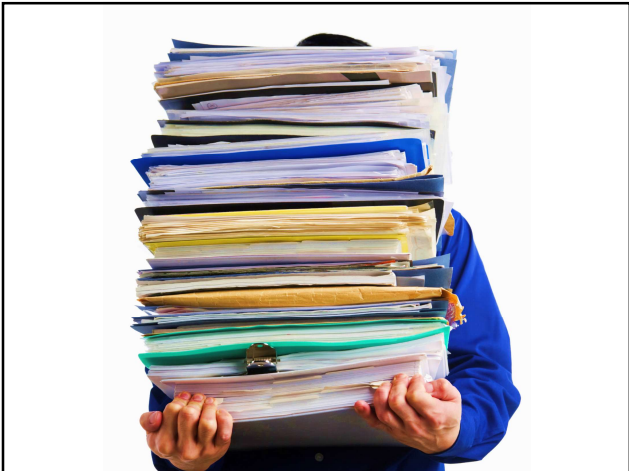
Comparing **PAYE** and **REPAYE**

	Lowest payment	Fastest forgiveness	Option to separate income	Cap on interest capitalization	Cap on interest accrual	Cap on monthly payments
PAYE	Yes	Yes	Yes	Yes	No	Yes
REPAYE	Yes	No	No	No	Yes	No

Comparing **Old IBR** and **REPAYE**

	Lowest payment	Fastest forgiveness	Option to separate income	Cap on interest capitalization	Cap on interest accrual	Cap on monthly payments
Old IBR	No	No	Yes	No	No	Yes
REPAYE	Yes	No	No	No	Yes	No

1. Make the right kind of payments,
2. on the right kind of loans,
3. while working in the right kind of job.
4. Repeat 120 times.
5. Prove it.



Avoid these falling coconuts

- Consolidation of older federal loans (FFEL) is necessary to access PAYE, REPAYE and PSLF
- Long-term repayment plans do NOT lead to forgiveness
- Borrowers should first evaluate the student loan consequences before filing a joint tax return without
- Forgetting to recertify income **on time** causes capitalization on unpaid interest – yikes!
- Those in public service should file Employment Certification Forms annually
- Those in public service should avoid making lump-sum payments
- Borrowers expecting long-term forgiveness should make a tax savings plan

Articulate an answer for each of these questions

1. Should the borrower **consolidate**? Why or why not?
2. Should the borrower **change repayment plans**? Why or why not?
3. Should the borrower **consider refinancing** with a private lender? Why or why not?
4. Should the borrower "**overpay**"? Why or why not?