Welcome to...

Get Savvy
Grow Your Green Stuff

This month's webinar presented as part of Money Smart Week:

April 27 Love Your Loan

UNIVERSITY OF ILLINOIS EXTENSION
investing in your financial health

UNIVERSITY OF ILLINOIS USFSCO
University Student Financial Services & Cashier Operations
Meet The Speakers

Sasha Grabenstetter
Consumer Economics Educator
University of Illinois Extension

Andrea Pellegrini
Assistant Director
Student Money Management Center
ASK THE EXPERTS

Joshua Keen
University of Illinois at Urbana-Champaign
Office of Student Financial Aid

Sam Bahena
University of Illinois at Chicago
Office of Student Financial Aid

Financial Aid experts are here to help!

Carolyn Schloemann
University of Illinois at Springfield
Office of Student Financial Assistance

Have a financial aid or repayment question? Use the chat box.
Where Are You Logging In Today?
Today’s Topics

• Love Your Loan
• Different Types of Student Loans
• Terms to Know
• Repayment Options
• Loan Forgiveness
• Loan Consolidation
Question

Why should you “love” your student loans?
Reasons to Love Your Loan

- Owe more in the long term
- Your paycheck or tax return can be garnished
- YOUR CREDIT SCORES
- Default
Different Types of Student Loans
Different Types of Student Loans

Federal Lender: federal government
These can be subsidized or unsubsidized.

State Lender: a state government
Illinois does not offer state loans.*

Campus-based Lender: your school
Perkins is one example of this loan type.

Private Lender: bank or credit union
Based on credit-worthiness.

*Illinois Student Assistance Commission (ISAC) has multiple college funding options available to Illinois residents. www.isac.org/
Federal Loans

**Retired**

**Federal Family Education Loan (FFEL) Program**
- Private lenders were able to provide federal loans through this program.
- No new loans are being disbursed under this program.

**Current**

- **Direct Subsidized**
  - Undergrads with financial need.
  - Federal government pays interest while you are in school.

- **Direct Unsubsidized**
  - Undergrad, grad, and professional students.
  - Student does not need to demonstrate financial need.

- **Direct PLUS**
  - Grad or professional students and parents of dependent undergrads.
  - Must not have adverse credit history.

- **Direct Consolidation**
  - Allow you to combine all eligible federal student loans into a single loan with a single loan servicer.

Campus-Based Loans

- Awarded to undergraduate and graduate students with exceptional financial need. Loan is repaid by you to your school.

**Perkins Loan Limits**

- **Undergraduate**: $5,500
- **Graduate**: $8,000

**Interest Rate**: 5%

**Repayment Plan**: 10 years (Standard)

Note: The Perkins Loan Program is a Federal Loan where your school is the Lender.
Private Loans

- Private Education Loans are offered by private lenders.
- These loans are not guaranteed by the Government.
- Can have higher interest rates.

Private loans are based on credit history.

Poor credit will effect your interest rate and ability to obtain these types of loans.

Repayment options for private loans vary significantly. Work with your loan servicer(s) to determine your options for repayment.
Terms to Know

Student Loan Jargon

What does THAT mean?
When you make your loan payment, you are paying both principle and interest.

Note: The more money you take out in a loan, the more money you have to pay back + interest!
Subsidized VS Unsubsidized

**Subsidized**

- Interest does not accrue on the loan while you are in school (at least half-time) or during any future deferment period.
- The government “subsidizes” the interest during these times.

**Unsubsidized**

- Interest accrues from the time the loan is disbursed to the school.
- You are responsible for paying that interest.
- You can choose to pay it while you are in school or let it accrue interest.
What is the difference between Subsidized and Unsubsidized Student Loans?

- a. An unsubsidized loan does not accrue interest while you are in school.
- b. The federal government pays your interest during in-school deferment on subsidized loans.
- c. Unsubsidized student loans qualify for loan forgiveness, but subsidized student loans do not.
- d. There are no differences between unsubsidized and subsidized student loans.
Subsidized student loans do not accrue interest during in-school deferment, because the federal government pays it on your behalf.

Note: If you receive a Direct Subsidized Loan that is disbursed between July 1, 2012, and July 1, 2014, you will be responsible for paying any interest that accrues during your grace period. If you choose not to pay the interest that accrues during your grace period, the interest will be added to your principal balance.
An ACH pulls your student loan payment from your checking account.

Benefits of ACH

- **ACH**
  - Stands for Automated Clearing House
  - a.k.a., Direct Debit or Automatic Payment

Loan servicers will give you an interest rate reduction if you sign up for ACH.

The reduction is .25% off your interest rate.
When do you have to start repaying your loan?

a. Immediately
b. 3 months
c. 6 months
d. 9 months
e. One year
f. Unsure
The period after you graduate, leave school, or drop below half-time enrollment before you are required to begin repayment of your loans.

- 6 months for Federal Direct Loan or Federal Family Education Loan (most common)
- 9 months for Federal Perkins Loans
Deferment = a period during which repayment of the principal and interest of your loan is temporarily delayed.

- You can apply for deferment if:
  - You are in school
  - You are in an approved graduate fellowship
  - You are unemployed (up to 3 years)
  - You are enduring an economic hardship (up to 3 years)
  - You are in active duty in the military & during the 13 months following the conclusion of active duty
Forbearance

Your loan servicer may be able to grant you a **forbearance** – if you can’t make your scheduled loan payments, but don’t qualify for a **deferment**.

2 Types of Forbearances

- **Discretionary**
- **Mandatory**
Discretionary Forbearance

You can request a discretionary forbearance for the following reasons:

- Financial Hardship
- Illness
Mandatory Forbearance

You can request a mandatory forbearance for the following reasons:

– You are serving in a medical or dental internship or residency program, and you meet specific requirements.
– The total amount you owe each month for all the student loans you received is 20 percent or more of your total monthly gross income (additional conditions apply).
– You are serving in a national service position for which you received a national service award.
– You are performing teaching service that would qualify for teacher loan forgiveness.
– You qualify for partial repayment of your loans under the U.S. Department of Defense Student Loan Repayment Program.
– You are a member of the National Guard and have been activated by a governor, but you are not eligible for a military deferment.
Repayment Options

• Standard Repayment
• Graduated Repayment
• Extended Repayment
• Income Based Repayment (IBR)
• Income Contingent Repayment (ICR)
• Income-Sensitive Repayment
• Pay as you Earn Repayment
Standard Repayment

• Pay fixed amount each month until your loans are paid in full.

• Monthly payment will be at least $50.00

• 10 years to repay your loan

• Might be a higher payment – but gets paid in the shortest amount of time.

• *If you don’t choose a repayment plan – this one will be chosen for you automatically*
Standard Repayment Example

Vanessa is a student in Illinois – she is about to graduate with a degree in Business Administration with an emphasis in Marketing.

$25,000 in Student Loans

- How much will her monthly payment be?
- How much interest will she pay over the life of her standard repayment plan?
# Standard Repayment Example

## Vanessa’s Standard Repayment Summary

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle Loan Amount</td>
<td>$25,000.00</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>6.8%</td>
</tr>
<tr>
<td>Months in Standard Repayment</td>
<td>120</td>
</tr>
<tr>
<td>Monthly Payment</td>
<td>$287.70</td>
</tr>
<tr>
<td>Total Interest Payment</td>
<td>$9,524.00</td>
</tr>
<tr>
<td>Total Loan Repayment</td>
<td>$34,524.00</td>
</tr>
</tbody>
</table>

*This example assumes all of Vanessa's loans are federal & she won’t be in deferment or forbearance during repayment.*
Graduated Repayment

• Payments start out low – and increase every two years.

• Your monthly payment will never be less than the amount of interest accrued.

• Can be either graduated repayment (10 years) or extended graduated repayment (25 years)
Graduated Repayment Example

Vanessa’s Graduated Repayment Summary

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</tr>
<tr>
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<td>120</td>
</tr>
<tr>
<td>Monthly Payment</td>
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</tr>
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<td>Total Interest Payment</td>
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</tr>
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*This example assumes all of Vanessa's loans are federal & she won’t be in deferment or forbearance during repayment.
# Graduated Repayment Example

<table>
<thead>
<tr>
<th>Period (years)</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>$165.95</td>
</tr>
<tr>
<td>3-4</td>
<td>$218.41</td>
</tr>
<tr>
<td>5-6</td>
<td>$287.45</td>
</tr>
<tr>
<td>7-8</td>
<td>$378.31</td>
</tr>
<tr>
<td>9-10</td>
<td>$497.85</td>
</tr>
</tbody>
</table>

**Totals**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
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<td>$37,149.53</td>
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</tbody>
</table>

*This example assumes all loans are federal & borrower won’t be in deferment or forbearance during repayment.*
### Which Repayment Option Would You Choose if You Were Vanessa?

<table>
<thead>
<tr>
<th></th>
<th>Standard</th>
<th>Graduated</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Principle Loan Amount</strong></td>
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</table>
Extended Repayment

- Pay fixed or graduated repayment amount over time. Maximum is 25 years.

- Must have more than $30,000 in outstanding loans.

- Monthly payment is lower, but you end up paying more interest.
Extended Repayment Example

• Matthew is a student in Illinois— he is about to graduate with a bachelors degree in Journalism

$32,000 in Student Loans

– How much will his monthly payment be?
– How much interest will he pay over the life of his extended repayment plan?
Extended Repayment Example

<table>
<thead>
<tr>
<th>Matthew’s Extended Fixed Repayment Summary</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Amount</td>
<td>$32,000</td>
</tr>
<tr>
<td>Interest Rate</td>
<td>6.8%</td>
</tr>
<tr>
<td>Months in Extended Fixed Repayment</td>
<td>300</td>
</tr>
<tr>
<td>Initial Payment</td>
<td>$222.10</td>
</tr>
<tr>
<td>Total Interest Payment</td>
<td>$34,630.92</td>
</tr>
<tr>
<td>Total Loan Repayment</td>
<td>$66,630.92</td>
</tr>
</tbody>
</table>

*This example assumes Matthew’s loans are federal & he won’t be in deferment or forbearance during repayment.*
Income Based Repayment (IBR)

• Maximum monthly payments will be 15% of discretionary income

• Based on income, family size, and state of residence

• Must submit annual documentation.

• Your payments change as your income changes

• 25 year repayment period, after 25 years the unpaid portion will be discharged

If the remaining loan is discharged, that amount will be taxed as income.
Income Contingent Repayment (ICR)

- For DIRECT Loans Only

- Flexibility to pay Direct Loan obligations without causing financial hardship.

- Based on adjusted gross income, family size, and total amount of your Direct Loans.

- 25 year repayment period, after 25 years the unpaid portion will be discharged

If the remaining loan is discharged, that amount will be taxed as income.
Income-Sensitive Repayment

- Federal Stafford Loans and FFEL LOANS

- Monthly payment is based on your annual income. (When your income increases, so do your payments & vise versa)

- Maximum repayment is 10 years
Pay as you Earn Repayment

- Maximum monthly payment will be 10% of discretionary income.

- Must be a new borrower on or after Oct. 1, 2007 and must have received a disbursement of a Direct Loan on or after Oct. 1, 2011.
What Do You Need to Consider When Deciding What is The Best Repayment Plan For You?
Loan Forgiveness
Types of Loan Forgiveness

- IBR Cancellation*
- Teacher Loan Forgiveness
- Public Service Loan Forgiveness

You may have to pay income tax on any amount that is forgiven
Loan Consolidation
Loan Consolidation

- Students can consolidate (combine) multiple federal student loans with different repayment schedule into one Direct Consolidation Loan.

- One payment instead of multiple monthly payments
  - Your monthly payment MIGHT be lower
  - Repayment period may be extended up to 30 years.

- All federal loans can be consolidated
Loan Consolidation cont...

• When can I consolidate my loans?
  – During your grace period
  – Once you’ve entered repayment
  – During periods of deferment or forbearance

• Interest rate on your consolidated loan is fixed for the life of the loan.
  – Based on weighted average of all the interest rates you consolidate
  – Never exceed 8.25%

What are the benefits of loan consolidation?

a. One payment
b. Lower interest rates
c. Peace of mind
d. All of the above
Answering Student Loan Questions
What is the best way to get rid of your student loans faster?

Limit what you spend while in school to reduce initial cost and balance of the loan – cancel part of the loan if it is unneeded to reduce origination fees.

Bi-weekly student loan payments – this helps reduce time between payments so interest doesn’t accrue as much + you one extra payment a year, which saves you $$!

Direct Debit (ACH) Discounts – If you allow your payments to be withdrawn from your checking account, you will get a .25% discount off your interest rate!
Isabelle

- Isabelle was offered $5,500 for the spring semester
- Her tuition, books, and fees only total $3,200
- Isabelle works a part time job and is a full time student. She struggled last semester financially and is thinking of taking the whole amount of $5,500.
- Isabelle has $10,000 in student loans already
Isabelle’s Decision

Repayment Plan: Standard
Monthly Payment: $152/month
Total repayment: $18,229

Repayment Plan: Standard
Monthly Payment: $178/month
Total Repayment: $21,405
Is it better to wait after graduation to start paying for loans or make monthly payments while still in college?

The decision is ultimately yours!

- If you have unsubsidized loans – you can make payments on the interest that is accruing while you are in school.
What happens if I max out my student loans?

Subsidized & Unsubsidized Aggregate Loan Limits

- **Dependent Student**
  - $31,000
  - No more than $23,000 of this may be in subsidized loans

- **Independent Student**
  - $57,500
  - No more than $23,000 of this may be in subsidized loans

Why is this important?

If you max out your student loans – you’ll be unable to borrow additional loans unless you pay them back.

https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action
Know...

• WHAT You Owe
• WHO You Owe
• WHEN to pay
• HOW to pay
• and your RESOURCES
Helpful Websites

• Department of Education’s Student Aid Website:

• Loan Balances:

• Payment Calculator:
  – www.ed.gov/offices/OSFAP/DirectLoan/calc.html
Disclaimer

This presentation and any linked materials are for educational purposes only. We DO NOT give legal, investment, insurance, or tax advice. All information provided during this presentation was intended to be general in nature and may not be applicable to individual cases. Seek a professional, like your campus financial aid office representative, your student loan servicer or the Department of Education, for personal needs.
Sources Used:

- http://finaid.org
- http://investopedia.com
- http://isac.org
- http://studentaid.gov
Tweet Chat Wednesday
@ 12:00 PM CST

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#UIMoney
Or
#GetSavvy

FOLLOW
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@ILStudentMoney
@finwellnessuie
@Pennies4Pigs
@WalletWarrior
@RetireWellUIExt

http://goo.gl/TuH1rW
Stay in Contact with Us!

Financial Wellness
web.extension.illinois.edu/financialwellness

Student Money Management Center
studentmoney.uillinois.edu
Financial Literacy Badges Program

Want to participate in University of Illinois financial education events and programs while also earning badges that you can display on social media sites?
Participate in the Financial Literacy Badges Program!

Badges Activity Inclusion Form: go.uillinois.edu/BadgeInclusionForm

Learn more about the the Financial Literacy Badges Program by visiting: badges.illinois.edu/usfsco/financialliteracyprogram

Launch of the Financial Literacy Badges program is supported through the Financial Literacy Counts Grant from HigherOne.
Questions?
Thank You