# Repaying Student Loans

  


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# Repaying Student Loans – 2021

## Things You Need To Know

- Student loans are borrowed money which must be repaid with interest.
- When your first loan payment is due/where to send your payments/ how much you will have to pay each month
- If you have any questions about your loans, you should contact your school's financial aid office prior to graduation, or your loan servicer after you graduate.
    - You may have more than one loan servicer (see next page)
- You may obtain your federal loan information from the U.S. Department of Education online at http://studentaid.ed.gov and select How to Repay Your Loans or call 1-800-433-3243.
- If you have any private student loans (from an education finance company, bank, or State non-profit) you must obtain loan information from the company.
- If you are unsure whether you have any private student loans, contact your school's financial aid office.
- Set up an online account with all of the companies which service your student loans.

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# Who's Who?

- **Federal Direct Student Loan and Grad PLUS Loan**
- Your lender:
  - U.S. Department of Education - Federal Government (Direct Loan Program) or the company which originally made a loan under the FFELP program – "your source of funds"
- Your servicer:
  - The company which administers the loan for:  the U.S. Department of Education – Federal (Direct Loan Program) or your FFELP lender – sends out monthly bills, handles customer service, implements the repayment plan you choose, processes payments

- **Perkins Loans** (not all schools offer this federal loan and not all students qualify for this loan)
- Your lender:
  - Your school - which originally made the loan under the federal Perkins Loan program
- Your servicer (ECSI at heartland.ecsi.net):
  - The company which administers the loan for your school - sends out monthly bills, handles customer service, implements the repayment plan you choose, processes payments (may be a different company)

- **Private Loans**
- Your lender:
  - An organization that made the loan to you – "your source of funds"
- Your servicer:
  - The company which administers the loan for the lender – sends out monthly bills, handles customer service, implements the repayment plan you choose, processes payments (may be a different company)

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# When Do I Begin Repaying My Loans?

- **Federal Direct Student Loan:**
  - After you graduate, withdraw from school, or drop below half-time enrollment, you have six months before you must begin repaying your loans. This is called the **“grace period.”** Repayment period begins at the conclusion of your grace period, on your due date (identified on your monthly statement).
  - If you have <u>subsidized loans</u>, no interest is charged on your loans while you are in school and you will not be charged any interest during your grace period. Interest is charged during repayment.
  - If you have <u>unsubsidized loans</u>, interest is charged on your loans while you are in school and you will be responsible for the interest charged during your grace period.
  - You may either pay this interest as it accumulates or have it capitalized (adding accrued interest to the principal balance of the loan) when you start repaying your loans.

- **Grad PLUS Loans (a type of Direct PLUS loan):**
  - The repayment period for a Direct PLUS Loan begins at the time the PLUS loan is fully disbursed, and the first payment is due within 45 days after the final disbursement. However, a Grad PLUS Loan will be placed into an automatic deferment while the borrower is enrolled in school at least half-time and for an additional six months after separation.
  - Interest that accrues on the loan during these periods will be capitalized when the loan goes into repayment if it is not paid by the borrower during the deferment period.
  - The Direct Loan Program currently offers an interest rate reduction of .25% for automatic withdrawal payments for both Stafford and Grad PLUS loans.
  - https://studentaid.ed.gov/sa/repay-loans/understand#when-begin

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# Coronavirus and Forbearance Info

- The Secretary of Education directed the office of Federal Student Aid to provide the following relief on ED-held federal student loans: suspend loan payments, stop collections on defaulted loans, set interest rates to 0%.
- From March 13, 2020, through the end of the COVID emergency relief period, the interest rate is 0% on the following types of federal student loans, but only if they are loans owned by ED: Defaulted and non-defaulted Direct Loans, Federal Perkins Loans and Defaulted HEAL Loans.
- Some FFEL Program and HEAL loans are owned by commercial lenders, and some Perkins Loans are owned by the institution you attended. These loans are not eligible for this benefit at this time, but you can contact your servicer to ask about what benefits may be available.
- www.studentaid.gov will update the Relief flexibilities as they become available.
- The CARES Act created a temporary income tax exclusion for up to $5,250 of student loan debt paid by your employer in 2020. However, the Taxpayer Certainty and Disaster Tax Relief Act, which was enacted in December, extended that tax break through 2025. The $5,250 cap applies to both student loan repayment benefits and other educational assistance (e.g., tuition, fees, books, etc.) offered by your employer.
- A new provision means that student loans discharged between December 31, 2021 and January 1, 2026 will be tax-free. But, this legislation doesn't include any provisions for actually cancelling student debt.
- COVID emergency measures are currently extended through Sept. 30, 2021

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# Your Rights

- Your loan holder is required to provide you with a disclosure statement containing a repayment schedule and information regarding interest rates, fees, balance owed and repayment options.
- You **have** the right to a grace period. (Federal Direct Student Loan) /**may have** a grace on Private loans
- If you qualify, you may defer payments on your loan(s) after the grace period expires and you have the right to request a forbearance- (Federal Direct Student Loan).
- You may prepay the entire sum of your student loan or pay more than the minimum requirement at any time without penalty.
- You have the right to cancellation/discharge if the borrower: dies, becomes permanently and totally disabled, is unable to complete a program of study because the school closed, is a victim of forgery, or if a loan is falsely certified by the school( Federal Direct Student Loan Program).
- The U.S. Department of Education may transfer servicing of your loans (Federal Direct Student Loan Program). If this occurs, you will receive notification from the current servicer and from the new servicer. http://studentaid.ed.gov/repay-loans/understand/servicers
- Under the Direct Loan Program, you can change repayment plans anytime

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# Your Responsibilities

- Repay the loan(s) according to the repayment schedule (even if you have not received a bill) and notify the servicer of any circumstance that affects your ability to repay or to confirm your eligibility for deferment or forbearance.
- Notify the servicer if you have graduated, withdrawn from school, dropped below half-time status, transferred to another institution, and/or changed your name, address, phone number or social security number, or if you fail to enroll for the period covered by the loan(s).
- Complete an exit counseling session before leaving school.
- Repay at least $600 per year ($50 a month, unless you have a deferment, Income Driven Repayment plan, or your lender agrees to a lesser amount).
- Remember that your loan(s) must be repaid even if you do not complete your education, are unable to obtain employment upon completion, or are dissatisfied with the educational program.
- The federal Master Promissory Note (MPN) that you signed was your promise to repay the funds. It provides important language about your rights and responsibilities with respect to obtaining and repaying the loan. The MPN has a multi-year feature that permits a borrower to sign one promissory note for multiple loans.

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# Interest Rates

- A Federal Direct Student Loan that is first disbursed on or after July 1, 2006 has a fixed interest rate for the entire term of the loan and it may be different each year depending on the type of loan and year it was disbursed.

- A Stafford loan that is first disbursed prior to July 1, 2006 has a variable interest rate. Your lender will notify you in writing about the variable interest rate that will go into effect on July 1st each year.

- Perkins loans (regardless of the disbursement date) have a fixed interest rate of 5% and a nine month grace period.

- The interest charge on your loans is calculated on a simple daily basis. This means your interest charge will be calculated each day over the course of a year. Each of your payments is applied to both the interest that was added during the previous month and your principal balance (the total amount you still owe). If you want to pay all or part of your loans early, the interest you are required to pay will be computed only to the day on which you pay back the loans in full.

- You can obtain detailed information regarding your federal student loans from the U.S. Department of Education by logging on to: https://studentaid.gov/ . To do so, you will need your FSA ID. The FSA ID is a username and password which has replaced the FSA PIN.

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# Repayment Plans

Time limits on repayment of Federal Direct Student Loan, Graduate PLUS and Parent PLUS Loans vary from 10-25 years, depending on which repayment plan you choose. If you do not select an alternative option, (graduated or extended) your account will be set up with the Standard Ten Year Repayment plan. You may change the repayment plan on your loans under the Direct Loan program. The loan must be paid in full by the maximum repayment period regulated by the U. S. Department of Education.

Income-driven repayment (IDR) became effective July 1, 2009 and is available to both Direct Loan borrowers and FFELP borrowers on all Stafford, Federal Direct and Graduate PLUS loans. (Parent PLUS loans and consolidation loans that contain parent PLUS loans are not eligible for IDR). Under these repayment plans, the amount you pay monthly is capped at a percentage of your "discretionary" income, an "affordable" amount based on a U.S. Department of Education calculation of your income and family size. You are eligible for IDR if the monthly repayment amount under IDR will be less than the monthly amount calculated under a 10-year standard repayment plan. If you meet the requirements, you may have some of your loan balance forgiven. You must provide annual documentation of your income to qualify and so your payment can be adjusted. You may pay more interest over the life of the loan than with other plans. Any forgiven amount is considered taxable income under the current IRS rules. For more detailed information or to download an IDR fact sheet, go to: https://studentaid.gov/ and select Income Driven Repayment Plan (IDR) and Calculator.

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# Time Driven Plans

**STANDARD REPAYMENT:**

With standard repayment, you will make a fixed payment of at least $50 a month for up to 10 years or until your loan is paid in full. You repay the loan(s) in equal installments over the repayment period. The minimum monthly payment is determined by the amount of the loan and the length of the repayment period. The monthly payment may be higher than under the other plans due to the shorter repayment term. Generally, this option is the fastest and the most economical method of repayment. All borrowers are eligible for this plan.
https://studentaid.ed.gov/sa/repay-loans/understand/plans/standard

**GRADUATED REPAYMENT:**

With Graduated repayment, a borrower's payments are lower at first and then increase. The amount increases every two years until the balance of the loan is repaid over a 10-year period and the monthly payment is never less than the amount of interest that accrues between payments. Borrowers using this plan typically pay a greater amount of interest than they would under the standard repayment plan. All borrowers are eligible for this plan.
https://studentaid.ed.gov/sa/repay-loans/understand/plans/graduated

**EXTENDED REPAYMENT:**

The extended repayment schedule is limited to borrowers with an outstanding balance of principal and interest in Direct loans totaling more than $30,000 or an outstanding balance of principal and interest in FFELP loans totaling more than $30,000. However, loans from the two programs cannot be combined to achieve the $30,000 minimum qualification amount. The lender may schedule the borrower for standard (fixed) or graduated installments over a period not to exceed 25 years. Your fixed monthly payment would be lower than the Standard Plan, but your total cost will be greater since more interest will accumulate over the longer repayment period.
https://studentaid.ed.gov/sa/repay-loans/understand/plans/extended

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# Income Driven Plans

An income-driven repayment plan is a repayment plan that sets your monthly student loan payment at an amount that is intended to be affordable based on your income and family size. The U.S. Department of Education offers four income-driven repayment plans:

REVISED PAY AS YOU EARN (REPAYE Plan)

PAY AS YOU EARN PLAN (PAYE Plan)

INCOME BASED REPAYMENT PLAN (IBR Plan)

INCOME CONTINGENT REPAYMENT PLAN (ICR Plan)

These plans are designed to make your student loan debt more manageable by reducing your monthly payment amount. The borrower must complete an application to use these plans. Each year the borrower's income must be verified and as a result of any changes, the payment amount will be increased or decreased for the next twelve months. Under all four plans, any remaining loan balance is forgiven at the end of the loan term. You may have to pay income tax on any loan balance amount that is forgiven. For more information:

https://studentaid.ed.gov/sa/repay-loans/understand/plans/income-driven

https://c.ymcdn.com/sites/ncher.site-ym.com/resource/collection/DACA245A-5783-4EC0-92F3-991881CD4F0C/02-16-17_NCHER_IDR_CompChart_v4_FINAL.pdf

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# Income Driven Plans – Pros and Cons

**Advantages**

- More affordable monthly payment
- Helps avoid delinquency and default
- Potential forgiveness of remaining balance after required years of qualifying payments

**Disadvantages**

- A lower monthly payment or extended term equals more interest expense / higher total repayment unless your qualify for loan forgiveness.
- Requires annual recertification with submission of family income and size for continued eligibility
- Forgiveness is not automatic
- Forgiveness amount may be taxable
- Negative amortization may occur – lower monthly payment means some monthly accruing interest is not being paid – borrower falls behind and may need to "make-up" payment deficit if income rises

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# If You Have Difficulty Making Payments

There are some situations when you cannot afford to make timely payments on your loan(s). It could be due to the loss of a job, disability, returning to college, etc. **If you find yourself in a financially difficult situation, and cannot make your payments, immediately contact your loan servicer to use the options available to you.**

- **DEFERMENT**
  To apply for a deferment, you need to contact your loan servicer. It may take 30 days or more to process a deferment; you must continue to make timely payments until you are notified that your deferment has been approved. Remember that a deferment is only a temporary delay in repayment; you are still required to repay your entire loan. The length of your deferment depends on your situation and the type of student loan you have. Also, you will be responsible for the interest if you have borrowed from the Direct Unsubsidized Stafford or Direct Graduate PLUS loan program. The government pays the interest on the Direct Subsidized Stafford loans.

- **FORBEARANCE**
  Forbearance may be granted if you are temporarily unable to meet your repayment obligations due to financial difficulty and do not meet the requirements for a deferment. Your servicer may let you reduce or postpone your payments for an agreed upon time. You will be responsible for the interest that accrues during the forbearance period for all loan types, including subsidized Stafford loans. Contact your loan servicer for more information. You must continue to make timely payments until you are notified that your forbearance has been approved.
  https://studentaid.ed.gov/sa/repay-loans/deferment-forbearance

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# Loan Forgiveness

- For the most recent up to date information for all Federal Loan Forgiveness Programs, including Public Service Loan Forgiveness Program (PSLF), please visit: https://studentaid.gov/ .

- The federal government has several loan forgiveness programs in existence. To qualify, an individual may have to: perform volunteer work; military service; teach or practice medicine in particular communities or be employed in a public service role.

- Public Service Loan Forgiveness (PSLF) allows eligible borrowers to cancel the remaining balance of their Direct loans after serving full time at a qualifying public service organization for at least 10 years while making 120 qualifying monthly payments after October 1, 2007. https://studentaid.gov/

- Some federal loan forgiveness programs apply only to borrowers with Direct Loans and may require that loans made under the Federal Family Education Loan Program are consolidated under the Direct Loan Program.

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# Direct Loan Consolidation

- **Advantages:**
  Loan consolidation enables qualified borrowers a one-time opportunity to convert their eligible federal loans into one new loan, with Direct Loans, at a fixed interest rate, lower monthly payment and a new (possibly longer) repayment term. Some federal loan forgiveness programs apply only to borrowers with Direct Loans and may require that loans made under the Federal Family Education Loan Program are consolidated under the Direct Loan Program. Depending on the amount of your debt and the repayment plan chosen, the term of the loan could be as long as 30 years.

- **Disadvantages:**
  You may lose some borrower benefits currently available on your existing federal student loans. Also, by increasing the length of time of repayment, more interest is accrued, increasing the total cost of your loan. However, a borrower may repay the loan in a shorter period of time without any penalty. Consolidation may also disqualify you from certain loan forgiveness programs.

- Direct Loan Consolidation does NOT reduce the interest rate.

- The interest rate for a Federal Direct Consolidation Loan is the weighted average of the interest rates on the loans being consolidated rounded up to the nearest one-eight of one percent

- To apply, a borrower must submit a consolidation loan application to the Department of Education https://studentaid.gov/

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# Student Loan Refinancing

- Many Education finance companies / Banks / State Based non-profit lenders offer Refinance student loans
- Refinancing can reduce your interest rate and converts a borrower's current student loans into one new loan
- Generally all types of student loans qualify: Federal Direct Student Loan, Parent PLUS, Grad PLUS and Private Loans.
- IMPORTANT NOTICE: Before you refinance any federal loans, please carefully consider the current temporary suspension of interest and payments issued by the federal government through September 30, 2021 and other federal loan benefits such as Public Service Loan Forgiveness. In addition, the incoming administration has raised the possibility of Federal Loan Forgiveness for certain student loan borrowers, but there are no specifics at this time. **Due to this uncertainty, RISLA is recommending not refinancing Federal Direct, FFELP or Federal Parent PLUS Loans at this time**. However, RISLA will continue to refinance all non-federal education loans and if the suspension of interest and payments is not extended and forgiveness not granted, RISLA will permit new refinancing student loan borrowers to add their Federal student loans to their existing refinance loan at the same terms and conditions until September 30. 2021.
- Lenders do not always offer the same benefits as federal loans, or in some cases offers the benefit, but not to the same extent. Repayment plans offered are different for each lender.
- Terms and conditions for Refinance loans depend on the type of lender and the individual organization
- Borrowers must pass a credit check and many Refinance loans require a co-signer - or the lender will provide a lower interest rate with a qualified co-signer
- Some loans have no up front or back end fees
- Refinance loans generally have a fixed interest rate
- Lenders may require borrowers to meet other eligibility requirements

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## Refinancing may…

- Convert variable rate loans (if you have them) to a fixed rate loan
- Lock in a lower interest rate
- Lower monthly payments
- Simplify the borrower's life – one bill / one payment per month
- Receive an interest rate reduction for automatic monthly payments
- Provide for additional borrower benefits

## Comparing Refinance Options

- The interest is fixed or variable and is based on the borrowers credit
- Fees – Be sure to ask if there are any and are they up front, back end or both? How much will they add to total cost?
- Repayment – How long is the term? What is the monthly payment?
- APR – Is the total cost of borrowing – including accruing interest, capitalized interest and fees, expressed as an annual interest rate. A tool which can be used to compare the total cost of one loan to another.
- What borrower benefits are offered by the lender? What must be done to achieve them?
- Does the loan have different repayment options? Does the loan have an Income Based Repayment option?
- Is deferment or forbearance available?
- If the student who benefitted from the loan dies or is permanently disabled, is the loan forgiven?

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# Considerations Before Refinancing

- Every borrower's financial, professional and personal circumstances are different. Before proceeding, fully understand the advantages and disadvantages for your personal situation and seek qualified independent counseling

- Federal education loans can also be consolidated into a Federal Direct Consolidation Loan, while it will not reduce your interest rate, it may provide you with features and benefits not available with non-federal refinancing loans. /

- If you refinance your federal loans with a non-federal Refinance Loan, you will not be able to: select a federal income driven repayment plan, such as: REPAYE, PAYE, IBR, or ICR; use federal deferment and forbearance options; be eligible for a Direct Federal Consolidation Loan; receive any borrower benefits available on your federal loans; participate in any federal loan forgiveness programs.

- Visit https://studentaid.gov/ for complete details.

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# Default

- **Don't default.** If you are experiencing financial difficulties, or if you think that you might qualify for a deferment or forbearance, contact your servicer. If you don't repay your loan on time or according to the terms in your master promissory note, you may go into default.

- **If you default, you may face these consequences:**
  - The entire unpaid balance will become immediately due and payable.
  - Collection charges of up to 25% will be added to the amount due, and your loans will be assigned to various collection agencies until you make full payment.
  - The Department of Education may take legal action and sue you to force repayment of your loan.
  - Your wages may be garnished.
  - Your tax refunds may be withheld and applied to the outstanding balance.
  - A lien may be placed on any property you own.
  - You will have a negative entry on your credit report
  - You will lose eligibility for other student aid and assistance under most federal benefit programs.
  - You will lose your rights to deferments and forbearances.
  - You may lose your professional license, which can result in the loss of your job.

https://studentaid.gov/

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# Unresolved Disputes – RI and Federal Contact Information

- **Student Loan Protection Center:** In 2019, Rhode Island Attorney General Peter Neronha, General Treasurer Seth Magaziner, Office of the Postsecondary Commissioner, and Department of Business Regulation worked with leaders in the General Assembly to pass the **Student Loan Bill of Rights**, which provides student loan borrowers with important legal protections and gives borrowers a place to go for assistance if they suspect they have been mistreated by their student loan servicer. https://studentloanrightsri.com/about-us/

- This site is a resource for Rhode Islanders with student loans to: 1) Understand your rights as borrowers, 2) Find answers to common questions and learn from the experiences of others, 3) Connect with a consumer protection expert who can help you determine if your rights have been violated and what your options may be to seek recourse, and 4) Report servicers that fail to meet their legal obligations to borrowers.

- **The Federal Student Aid Ombudsman's Office:** will aid students who have problems regarding financial aid that they have not been able to resolve through normal channels. Contact the Ombudsman at: https://studentaid.ed.gov/repay-loans/disputes/prepare/contact-ombudsman

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# Disclaimer

- The information contained in this document is not legal, tax or investment advice.
- It is only a general overview of the subject presented.
- The Rhode Island Student Loan Authority, a nonprofit state authority, does not provide professional advice on financial, tax or legal matters. You are urged to consult your financial, tax and legal advisors for advice. RISLA does not endorse or promote any commercial supplier, product or service.
- If you have any questions please feel free to contact me.
- TEXT: Repay2021 to 24000 to get a copy of this presentation and to get updates from RISLA and our College Planning Center.

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