Student Loan Basics

• Loans have to be repaid. Borrow only what you need.
• Interest
  – What you are charged for using someone else’s money
• Capitalization
  – The addition of unpaid interest to the principal balance. Then new interest is applied to the ENTIRE balance (principal plus capitalized interest)
Types of Student Loans

• Federal Subsidized Stafford Loan
  – No interest is accruing while you are in school at least half-time and during grace period
• Federal Unsubsidized Stafford Loan
  – Interest is accruing the entire time
• Different interest rates as of 7/1/2008
• Repayment begins 6 months after you are no longer enrolled at least half-time
• Complete FAFSA and Master Promissory Note
Types of Student Loans

- Federal Grad/Prof PLUS (GPLUS)
  - Graduate/professional students
  - Repayment can be deferred while in school
- Federal Perkins Loan
  - Awarded by your financial aid office
  - Complete FAFSA and Promissory Note
  - 5% interest rate
  - Repayment begins 9 months after you are no longer enrolled at least half-time
Types of Student Loans

• Federal Parent Loan (PLUS)
  – Borrowed by parent on behalf of a dependent undergraduate student

• Alternative or Private Loans
Your Master Promissory Note (MPN)

- Contains your Rights and Responsibilities
- Is a binding legal document that you signed
- You indicated your commitment to repay your loans by signing the MPN
- Your MPN may have been used for only one year at a time or as a multi-year note
- Your MPN expires after 10 years or if you declare bankruptcy or for other reasons – check with your lender
- Check with your lender if you have questions about your MPN
You Have to Repay Your Loan Even If

- You did not complete your education
- You are not employed
- You did not find employment in your field of study
- You feel the education you received did not meet your expectations
Your Lender Can Sell Your Loan

• Your lender can sell your loan to another lender or secondary market
• The original lender and new holder of your loan must notify you in writing if a sale occurs. Notification includes new holder’s
  – Name
  – Address
  – Telephone number
• Terms and conditions of your loan remain the same
Repayment Begins – Stafford Loan

- 6 month grace period
- Begins the day after you stop attending on at least a half-time basis
- Each loan has only one 6 month grace period.
- Your lender advises you of your first payment due date during your grace period.
- You are responsible for beginning repayment of your loan even if your lender’s communication fails to reach you.
Repayment Begins - GradPLUS

- Your GradPLUS loan enters repayment on the date the loan is fully disbursed, but you would have received an in-school deferment while you were enrolled.
- Post Enrollment Deferment (sometimes referred to as a grace period) begins the day after you drop below half-time enrollment.
- Your lender advises you of your first payment due date during your grace period.
- You are responsible for beginning repayment of your loan even if your lender’s communication fails to reach you.
Interest on Your Loans

- **Subsidized Stafford Loan**
  - Government paid interest while in school, during authorized periods of deferment and during grace period.

- **Unsubsidized Stafford Loan**
  - Interest accrued from disbursement. You may have made some payments while in school, during authorized periods of deferment, or during grace period.

- **GradPLUS Loan**
  - Interest accrued from disbursement. You may have made some payments while in school or during authorized periods of deferment or during post enrollment deferment (grace) period.

- **Paying interest while you go saves money in the long term.**
Repayment Tips

• Keep your loan records organized
• Keep copies of everything related to your loan
• Know how much your loan payments will be – your lender will send you a repayment schedule
• Create a monthly budget
• Check to see if your lender offers automatic payment withdrawal
• Your lender will offer you the Standard Repayment Plan and will provide information about other repayment plans
Possible Tax Benefits

• You may be eligible to deduct up to $2500 of the student loan interest you paid
• Check with the IRS or your tax advisor
• Tax benefits can change on an annual basis
• Review IRS publication 970 “Tax Benefits for Education”
• More information available at www.irs.gov
Repayment Options

• You always have the option to prepay your loan
• You can always pay your loan on a shorter schedule
• Repayment Schedules
  – Standard Repayment
  – Graduated Repayment
  – Income-Sensitive Repayment (FFEL)
  – Income-Contingent Repayment (Direct Loan)
  – Income-Based Repayment
  – Extended Repayment
Standard Repayment Schedule

- Minimum monthly payment is $50 – may be higher, depending on balance
- Maximum repayment period is 10 years
Graduated Repayment Schedule

- Begins with lower payments
- Payments increase over time
- More interest will accrue over the life of the loan
- Principal balance decreases at a slower rate
Income-Sensitive Repayment (FFEL)

- Adjusted payment amount based on gross income
- Payment cannot be lower than monthly interest amount
- Eligibility and payment amount verified annually
- More interest will accrue over the life of the loan
- Principal balance decreases at a slower rate
Income-Contingent Repayment

- Adjusted payment amount based on gross income
- Payment cannot be lower than monthly interest amount
- Eligibility and payment amount verified annually
- More interest will accrue over the life of the loan
- Principal balance decreases at a slower rate
Income-Based Repayment

• Available for payments made on or after July 1, 2009
• Adjusted payment amount based on income and family size
• Payment will not exceed 15% of amount by which your adjusted gross income (AGI) exceeds 150% of poverty line (based on your family size)
• If monthly payment amount is not enough to pay the accrued interest, the Department of Education will pay the remaining interest for a period of 3 years
Income-Based Repayment continued

- Eligibility is reevaluated annually
- More interest may accrue over the life of the loan
- Principal balance decreases at a slower rate
- Any outstanding loan balance after 25 years will be forgiven
- Amount forgiven may be taxable
- IBRinfo.org
Extended Repayment

- Available to new borrowers on or after October 7, 1998 with balance of more than $30,000 in FFEL or DL
- Payment amounts can be fixed annually or graduated
- Maximum repayment term is 25 years
- More interest may accrue over the life of the loan
- Principal balance decreases at a slower rate
Student Loan Basics

• Grace Period
  – Time during which you do not have to make any loan payments.

• Deferment
  – Time during which loan payments are temporarily suspended

• Forbearance
  – Temporary change in loan payment due to some financial hardship you are experiencing. You may still have to pay the interest that is accumulating during this time.
Trouble Paying?

• Contact your lender!
• You may be able to reduce your monthly payments
  – Do you qualify for an alternate repayment schedule?
• You may be able to temporarily postpone your payments
  – Do you qualify for a deferment?
  – Do you qualify for forbearance?
Deferment

- Time period when repayment is temporarily suspended
- Possible deferment periods include
  - At least half-time enrollment at an eligible school
  - Graduate fellowship
  - Rehabilitation program
  - Unemployment
  - Economic hardship
  - Military Service

These deferments apply to loans made on or after July 1, 1993. If you have a loan made before that date, check your promissory note.
Forbearance

- You are unable to make your scheduled payments but you do not qualify for a deferment
- Most forbearance is discretionary – it is up to your lender to decide to grant forbearance.
- Forbearance may allow you to
  - Reduce the amount of your payment
  - Temporarily stop payments
Forbearance continued

• These conditions might qualify you for forbearance
  – Personal problems such as poor health or economic hardship
  – Affected by circumstances like a national or local emergency, military mobilization or natural disaster
  – Exhausted your eligibility for an internship deferment
  – Serving in a position that may qualify you for loan forgiveness, partial repayment of your loan or national service educational award

• You are still responsible for the interest that accrues during forbearance. Try to pay it. Capitalized interest is added to the principal balance and increases your total outstanding debt and possibly your monthly payments
Combining Loans

- You have multiple lenders
- You are making the minimum payment on multiple loans
- Consolidation means one monthly payment to one lender
- Determine which lender offers consolidation loans and which one can best serve you
- Request that lender purchase your other loans
Federal Consolidation Loan

• **Benefits**
  – Extended repayment of up to 30 years, based on your loan balance
  – One monthly payment
  – Can prepay or change repayment plans
  – Fixed interest rate

• **Drawbacks**
  – Extra interest over the life of the loan if you are in a longer repayment period
  – Loss of eligibility for certain deferment, forgiveness, cancellation and grace period benefits
  – Different lenders may offer different borrower benefit programs and you might lose some of those benefits you previously had
Loan Cancellation – Stafford Loan

- Your death
- You become totally and permanently disabled
- Your school fails to pay a refund if you withdraw
- Your school closes and you are unable to complete your program of study as a result
- Your loan was falsely certified as a result of identity theft
- Your school falsely certified or fraudulently completed a loan application in your name without your approval
Loan Forgiveness

• Teacher Loan Forgiveness – Stafford Loans
  – First loan was made on or after October 1, 1998
  – You teach in a qualifying low-income school for 5 consecutive years

• Public Sector Employee Forgiveness – Federal Direct Stafford & Federal Direct GradPLUS Loans
  – You made 120 monthly payments on eligible loans after October 1, 2007
  – You are employed in a public-service job at the time of forgiveness and have been employed in a public-service job during the 120 month period
  – You can consolidate your FFEL loans into Direct Loans to participate in this program
  – http://www.finaid.org/loans/forgiveness.phtml
Loan Forgiveness – Stafford Loan

• Service in Areas of National Need
  – For each school, academic or calendar year of full time employment in an area of national need that you complete on or after August 14, 2008
  – Up to $2000 of your outstanding loan balance will be forgiven
  – Maximum of $10,000 can be forgiven
  – Cannot receive forgiveness for more than 5 years of service

• This program is subject to federal funding and availability
Loan Repayment Programs – Stafford Loan

• These programs may help you repay your loan
• AmeriCorps service program
  – www.americorps.org
  – 800-942-2677
• Service as an enlisted person in the National Guard or Reserve program
  – Contact your recruiter for more information
Delinquency and Default

- When you fail to make your payment on time, you are delinquent in meeting your obligation.
- When you fail to make your payments for 270 days, you are defaulting on your student loan.
- There are serious consequences to defaulting on your student loan obligation.
Consequences of Default

• Damaged credit rating
• Referral to a collection agency
• Collection costs are added to your debt
• Garnishment of your wages
• Federal or state tax refunds, Social Security benefits, etc. can be withheld
• Civil lawsuit filed against you (court costs and legal fees)
• Loss of deferment and forbearance entitlements
• Loss of repayment option flexibility
• Loss of eligibility for further financial aid
• Suspension of professional license
Repayment Tips

• Keep loan records in good order
• Update your contact information
• Pay on time – or early
• Set up automatic draft for your student loan payment
• Call your lender at the first sign of trouble.
Use NSLDS

- National Student Loan Data System (NSLDS)
- Use NSLDS to monitor all of your federal student loan debt
- [www.NSLDS.ed.gov](http://www.NSLDS.ed.gov)
- 800-999-8219
- You’ll need your federal student aid PIN to access

- Any private or alternative loans you have borrowed will not be listed on NSLDS
CFNC Resources

- CFNC is a service of the state of North Carolina provided by
  - Pathways of North Carolina
  - College Foundation, Inc.
  - North Carolina State Education Assistance Authority
- Resources are available to all North Carolina residents and students
Resources

- Mappingyourfuture.org
- CFNC.org
- Ed.gov
- NCHELP
- Common Manual
- US Department of Education publications