

Loan Repayment Strategies: Understanding Forgiveness, Forbearance, and Deferment

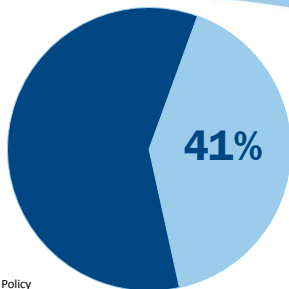


Objectives

- Discuss how borrowers can avoid delinquency and default
- Review deferments and forbearance
- Share details of the Loan Forgiveness Programs
- Discuss what you can do to help students develop a strategy



41% of borrowers face the negative consequences of delinquency or default



Source: Institute for Higher Education Policy



Characteristics of Defaulted Borrowers

- Most borrowers who default:
 - Did not complete their program
 - Never received their full 6-month grace period
 - Were on the standard repayment schedule
 - Never obtained a deferment or forbearance



Ways Borrowers Can Avoid Delinquency & Default

- Select a repayment plan that's affordable
 - An unaffordable payment is the top reason for delinquency
- Select a plan during the grace period
 - If not, borrowers remain in the Standard repayment plan
- Change the repayment plan if it becomes unaffordable
 - Most borrowers who default were on the Standard repayment plan



Ways Borrowers Can Avoid Delinquency & Default

- Change the monthly due date
- Postpone payments with a deferment or forbearance, if they truly cannot afford to make a payment





Deferment

- Benefits
 - Postpones payments for borrowers, if they meet the eligibility requirements
 - The federal government pays the accruing interest on subsidized loans



Deferment

- Drawbacks
 - Interest accrues on unsubsidized and PLUS loans
 - Interest may capitalize at the end of the deferment which will increase the amount of the loan
 - Some deferments have time limits



Deferment Criteria

Types of Deferment	Length of Deferment
In-school	No time limit
Graduate Fellowship	No time limit
Rehabilitation Training Program	No time limit
Unemployment	Up to 36 months
Economic Hardship	Up to 36 months
Military	No time limit



Unemployment

- Deferment is granted to borrowers who:
 - Work less than 30 hours a week
 - Work a full-time job that is not expected to last more than 90 days
 - Are unemployed but are diligently attempting to find full-time work



Unemployment

- Borrowers must:
 - Provide documentation of receiving unemployment benefits
 - Be registered with a private or public employment agency or local job service



Meet Laura

- Single
- Earned \$40,000 for the first six months of the year
- Federal loan debt - \$25,000
- Received unemployment deferment for 36 months
- Loan debt after deferment is \$30,640
 - \$5,640 in interest has accumulated



Economic Hardship

- Deferment is granted to borrowers who:
 - Work full time
 - Earn an amount that does not exceed the greater of:
 - Minimum wage
 - 150% of the poverty line applicable to the borrower's family size



Economic Hardship

- Borrowers must provide:
 - Paycheck stubs
 - Public assistance benefit paperwork
 - Paperwork must be up-to-date
- Deferment may be granted if it was received from another federal loan program
 - Borrower received economic hardship deferment for Perkins loan



Meet Luke

- Married filed jointly with no children
- Both work full time
 - His income - \$12,000
 - Spouse's income - \$35,000
- Federal loan debt - \$25,000 (spouse has none)



Meet Luke

- Does not qualify for Income-Based Repayment but does qualify for economic hardship deferment





Forbearance

Forbearance

- Benefits
 - Postpones or reduces payments for borrowers, if they meet qualifications
 - Offered at the discretion of the lender (except mandatory forbearance)
 - Granted up to 12-month intervals
 - May be used to bring a delinquent loan current to a current status
 - Many requests can be taken over the phone or online



Forbearance

- Drawbacks
 - Interest accrues on all loans during the forbearance
 - Interest may be capitalized at the end of the forbearance, which will increase the amount of the loan



Forbearance

- Four types of forbearance:
 - Administrative forbearance
 - Discretionary forbearance
 - Mandatory forbearance
 - Mandatory administrative forbearance



Forbearance

- Other circumstances for granting forbearance include:
 - Financial hardship
 - Poor health
 - Excessive debt
 - Medical residency
 - Eligibility for Teacher Loan Forgiveness



Other Options to be Considered

- Postponing payments may not always be in best interest of the borrower
- Many options should be explored first:
 - Reduced payments
 - Different repayment plan





Loan Forgiveness Options Available to Borrowers

Public Service Loan Forgiveness

Borrowers who work for a public service employer may be eligible to have a portion of their Direct loan debt forgiven after 120 qualifying monthly payments on or after October 1, 2007



Public Service Jobs

Public service organization

- A federal, state, local, or tribal government organization, agency, or entity
- A public child or family service agency
- A nonprofit organization under section 501(c)(3) taxation under section 501(a) of the IRC



Public Service Jobs

Public service organization

- A tribal college or university
- Peace Corps and AmeriCorps



Public Service Jobs

Public service organization

- A private organization that provides public services:
 - Emergency management, military service, public safety
 - Law enforcement, public interest law services, public child care
 - Public service for individuals with disabilities and the elderly



Public Service Jobs

Public service organization

- A private organization that provides public services:
 - Public health, public education, public library services
 - School library or other school-based services



Public Service Jobs

Public service organization

- Is not a business organized for profit, a labor union, partisan political organization, or religious organization



Qualifications

- Cannot be in default
- Must be employed full-time:
 - 30 hours per week or the equivalent
 - During the time the borrower makes the qualifying payments
 - At the time loan forgiveness is requested and granted



PSLF Qualifying Payments

- Required 120 payments do not have to be consecutive, but must be:
 - Separate
 - On time
 - Full monthly payments
- Reduced or zero monthly payments under IBR, Pay As You Earn, or ICR qualify



PSLF Qualifying Payments

- Qualifying monthly payments must be made under these plans:
 - Income-Based Repayment
 - Pay As You Earn
 - Income-Contingent Repayment
 - Standard (based on 10-year schedule)



Non-Qualifying Payments

- Standard repayment term on a Direct Consolidation loan that is more than 10 years
 - Standard repayment on a consolidation loan is 10 to 30 years, depending on total education debt
 - In order to have qualifying payments for PSLF, the monthly payment cannot be less than a 10-year standard payment amount



PSLF Certification Form

- Borrowers considering Public Service Loan Forgiveness should submit the Employment Certification Form (ECF) annually to FedLoan Servicing
 - Completion of the form is voluntary
 - Form available at <http://studentaid.ed.gov/PORTALSWebApp/students/english/PSF.jsp>



Meet Hope

- Case worker
- Single, no dependents
- Income – \$35,000
- Federal loan debt – \$50,000
- Demonstrates a partial financial hardship and qualifies for Pay As You Earn and IBR
- After 10 years working in the public sector, she applies for PSLF



Meet Hope

PSLF options with Pay As You Earn, IBR and ICR

	Pay As You Earn	IBR	ICR
Time in repayment	10 years	10 years	10 years
Total amount paid	\$24,814	\$37,222	\$55,952
Total amount forgiven	\$57,189	\$45,711	\$19,858

Assumes a 5% increase in Summer's income each year and a 3% annual increase in the poverty guidelines



Stafford Loan Forgiveness Program for Teachers



Borrowers who teach in an elementary or secondary school that is designated as low income may be eligible to have a portion of their Stafford loan debt forgiven



General Qualifications

- Must teach full time for at least five consecutive, complete academic years in a school designated as low income by the U.S. Department of Education
- At least one of those five years must be after the 1997 – 1998 school year
- Cannot be in default on the loan for which forgiveness is being requested



Qualifying Schools

<https://www.tcli.ed.gov/CBSWebApp/tcli/TCLIPubSchoolSearch.jsp>

ED has created a directory of qualifying schools with a high concentration of students from low-income families

Search TCLI Directory

Choose a State:

Year:

School Name:

Location:

Download TCLI Directory
(Sorted By: Year, State, Location, School Name)

Choose a State:

Year:



Up to \$5,000 in Forgiveness

- May receive up to \$5,000 in loan forgiveness if borrower is:
 - A highly qualified full-time elementary or secondary school teacher as defined by the U.S. Department of Education – **and** –
 - A teacher who has five years of qualifying teaching service on or after October 30, 2004



Up to \$17,500 in Forgiveness

- May receive up to \$17,500 in loan forgiveness if borrower is:
 - A highly qualified full-time mathematics or science teacher in a secondary school – **or** –
 - A highly qualified elementary or secondary special education teacher whose primary responsibility is to provide special education to children with disabilities



Highly Qualified



- To be a highly qualified teacher, the elementary or secondary school teacher must have:
 - Obtained full state certification as a teacher
 - Not had certification requirements waived



Highly Qualified Elementary Teacher

- Must hold at least a bachelor's degree
- Must demonstrate subject knowledge and teaching skills in:
 - Reading
 - Writing
 - Mathematics
 - Other areas of basic elementary school curriculum



Highly Qualified Middle or Secondary Teacher

- Must hold at least a bachelor's degree
- Must demonstrate high level of competency in each subject he/she teaches



Federal Employee Student Loan Program



Permits federal agencies to repay federal student loans as a recruitment or retention incentive for candidates or current employees of the federal agency

Visit opm.gov/oca/pay/StudentLoan for more information



Loan Forgiveness Programs

Forgiveness Program	Eligible Loan Programs	Required Term	Amount Forgiven
Public Service Loan Forgiveness	Direct Loans	10 years repayment	Remaining principal and interest
Teacher Loan Forgiveness	FFELP & Direct Loans	5 years consecutive repayment	\$5,000 or \$17,500
Federal Employee Student Loan	FFELP, Direct & Perkins Loans	Minimum 3 years required service	Up to \$10,000 annually Up to \$60,000 maximum





What Borrowers Need to Know About Developing a Repayment Strategy

Counseling Borrowers

- What borrowers should do to prepare for repayment:
 - Use NSLDS to determine how much they owe and to whom
 - Compare payment amounts under the different plans



Counseling Borrowers

- What borrowers should do to prepare for repayment:
 - Determine how much they can afford
 - Know the amount of accumulated interest for each plan
 - Know eligibility of the repayment plans for the loan forgiveness programs



Counseling Borrowers

- Remind them that they:
 - Will be placed in the standard plan if they do not choose a different one during their grace period
 - Can change their plan
 - Can change their due date
 - Can postpone with a deferment/forbearance if they have difficulty making a payment



Counseling Borrowers

- Strongly encourage them to contact the servicer immediately if they:
 - Have difficulties making a payment
 - Need to change payment plan
- Encourage them to:
 - Catch up on missed payments if they become delinquent



Conclusion

- Help your students become more informed consumers
 - Explain loan repayment options
 - Promote loan forgiveness programs
- Utilize available resources from Great Lakes and the U.S. Department of Education



Resources from Great Lakes

Mygreatlakes.org

- Online account access
- Financial IQ®—financial literacy information for borrowers
 - Repayment calculators
 - Budget calculator
 - Webcasts



Resources from the Department of Education

- www.studentaid.ed.gov
- www.edpubs.gov



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Thanks for Attending

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