STUDENT LOANS

A Presentation by NLSP

DISCLAIMER:

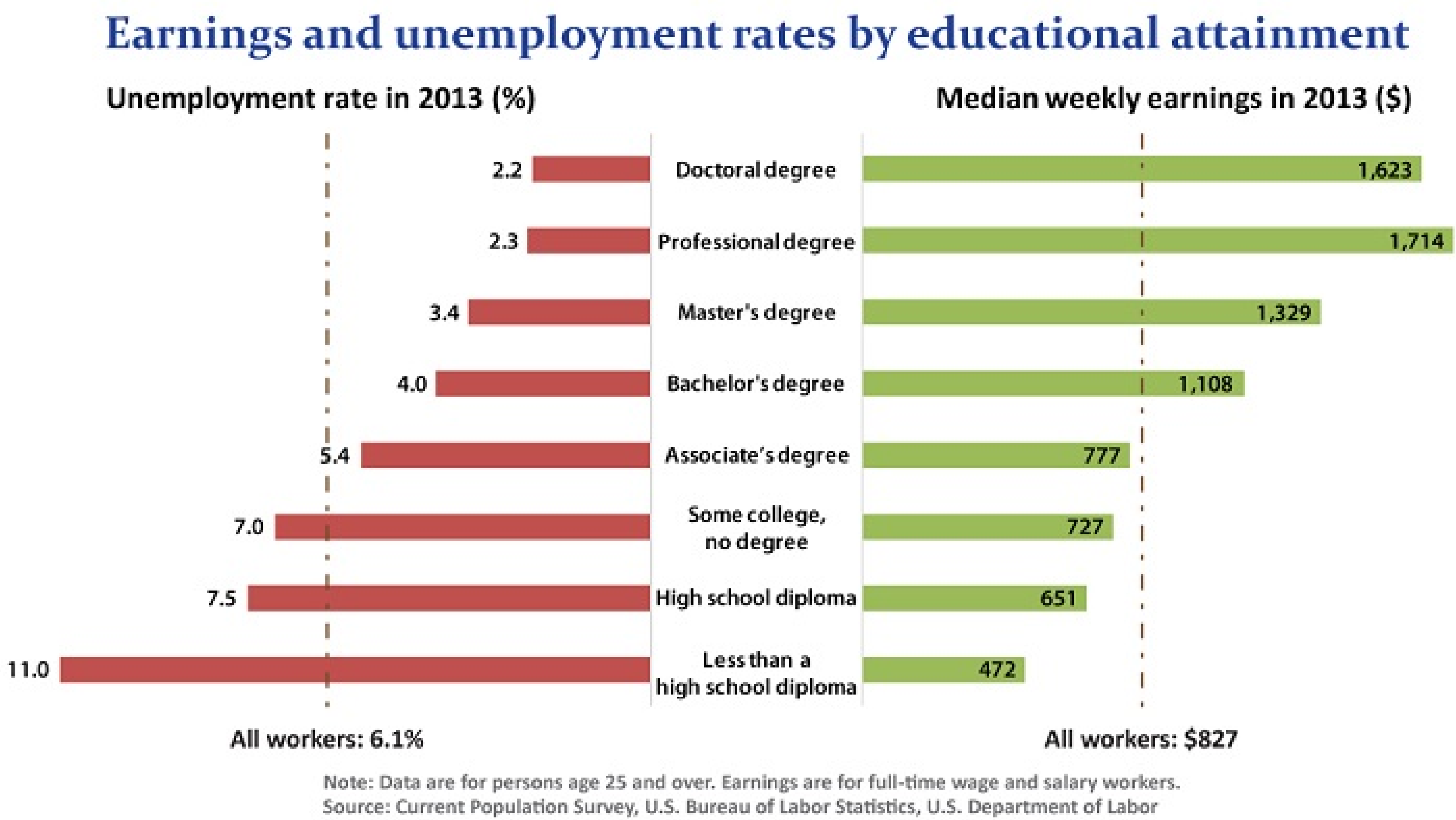
Please note that the information contained in this presentation is only general background information about credit reporting and student loans: This presentation is not legal advice. If you have a specific question about any of the topics discussed in this presentation, you should speak with an attorney about your individual case.

STUDENT LOANS: AN OVERVIEW

Student Loans: The Good News

- Going to school can be expensive, and student loans can help you make it even if you can’t afford to pay tuition up front (and who can?)
- Some student loans offered through **federal financial aid** programs have lower interest rates and better repayment terms than student loans from private lenders.
- Student loans can help you pay for an education—and education pays off!

Student Loans: The Good News



Student Loans: The Bad News

- Student loans are loans—you have to pay them back, with interest!*
  - **Grants** and **scholarships** *don't* have to be paid back, so apply for and use up all the ones you qualify for before you take out any loans!
  - Remember: Even if you don't finish a program, you still have to pay back the money you borrowed to pay for it!

* Some extremely rare (mostly state-run) financial aid programs offer zero-interest student loans.

Student Loans: The Bad News

Interest can really add up!

- Hypothetical loan:
  - $10,000
  - 4.66% annual interest rate
  - 10 year repayment term

  Total paid: $12,529.37—more than **$2,500** in interest!

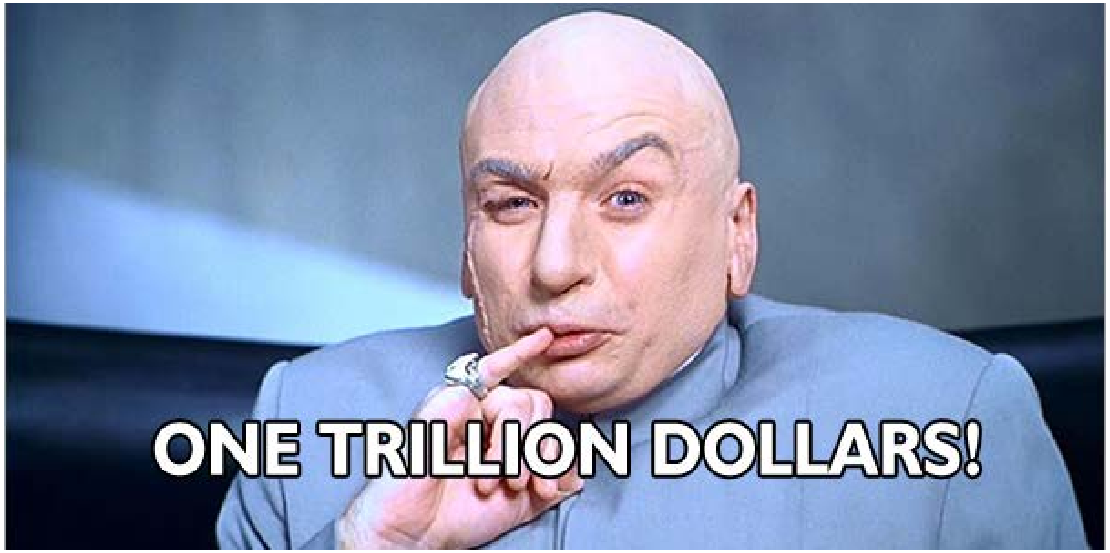
  (Change the interest rate to 9.32%, and the total paid becomes **$15,409.69**)

Student Loans: The Bad News

- If you borrow a student loan and can’t pay it back, it can:
  - Damage your credit
    - That can make it harder to get a job, get an apartment, and borrow money!
  - If it is a federal loan, lead to garnishment of wages, tax returns, and some federal benefits, and liens on your bank accounts and property
  - If it is a private loan, your federal benefits and tax returns can’t get garnished, but the lender might be able to get a judgment against you, and use that to garnish wages and place liens on your bank accounts and property

Student Loan Debt by the Numbers

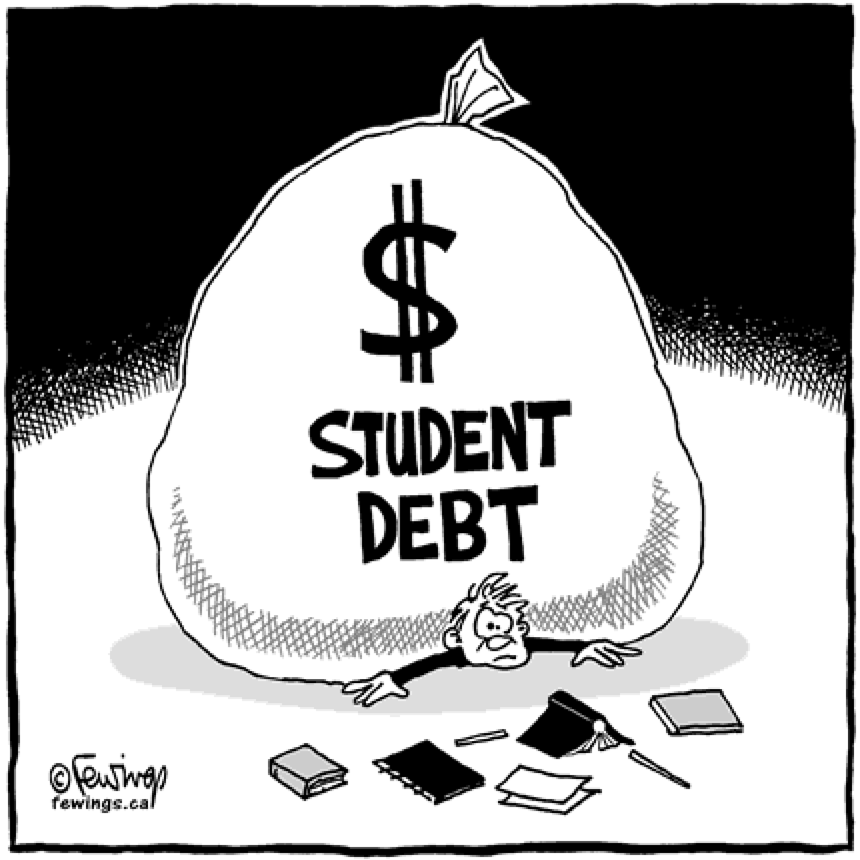
- $1.1 trillion: Approximate amount of outstanding student loan debt (second only to mortgages).*
  - 92 percent of that is loans originated through federal financial aid programs



* According to the National Association of Consumer Advocates

Student Loan Debt by the Numbers

- $29,400: Average outstanding balance for borrowers with student debt.
- 1 in 8: Share of student loan borrowers with an outstanding balance above $50,000.
- 30 percent: Share of borrowers in repayment who are delinquent on a student loan.



SHOPPING FOR SCHOOL

Part 1: Choosing a School

- Factors to think about:
  - (1) Does the program offer the credential that you need for a particular job or field?
  - (2) How much does the school cost?
  - (3) How often to graduates from this school default on their student loans? How often do they find jobs? Ask the school, or visit http://collegecost.ed.gov/
- Can you get the same credential somewhere else—like a community college—for less?

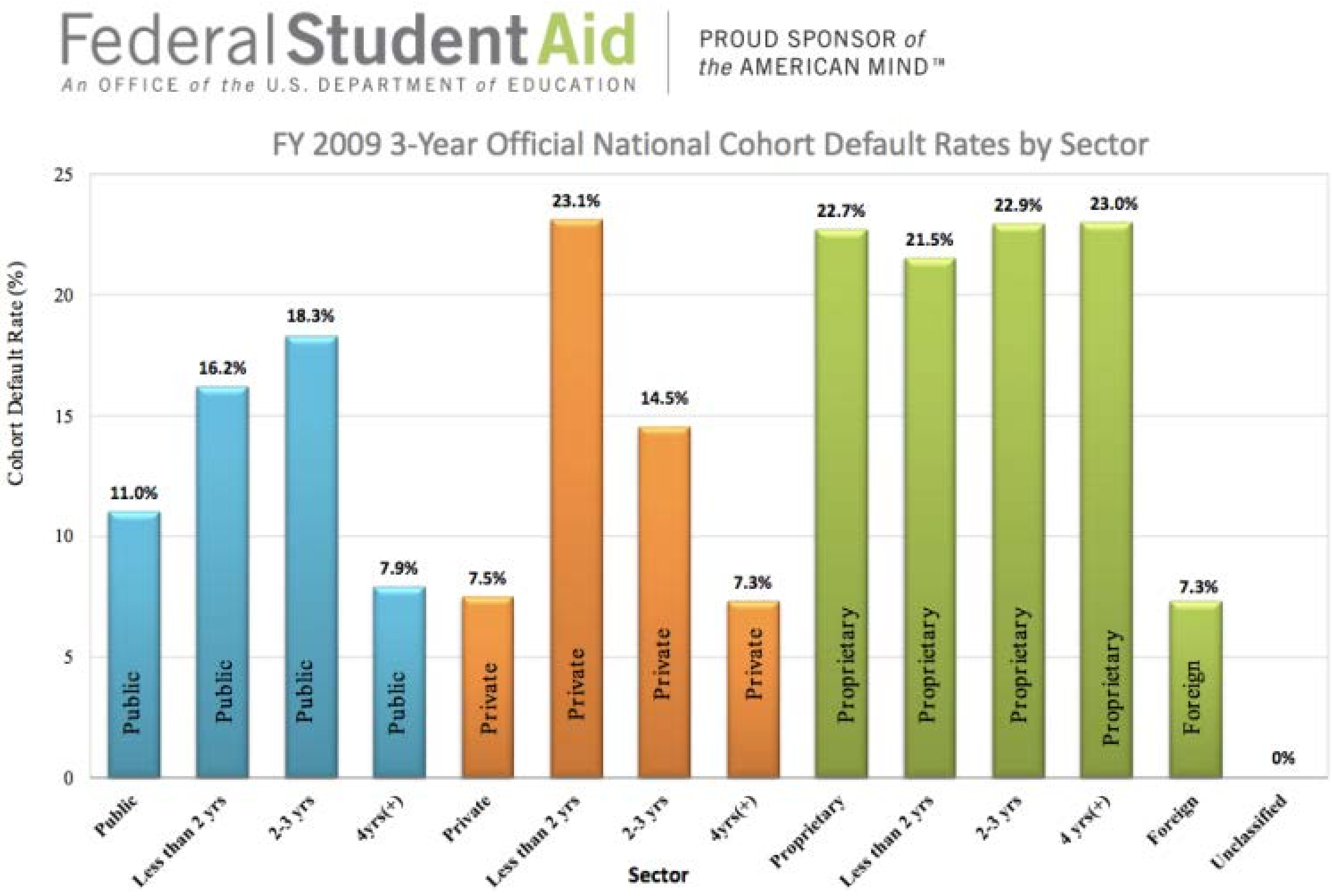
Part 1: Choosing a School

- UDC Community College Workforce Development and Lifelong Learning (http://cc.udc.edu/wd)
  - workforce@udc.edu, or call (202) 274-7181
  - From the brochure:

“The University of the District of Columbia Community College, Workforce Development and Lifelong Learning Division offers residents of Washington, DC training programs in five career clusters: hospitality, allied health, construction, transportation and administrative/technology. These career clusters represent highwage, high-demand industries in the Washington Metropolitan Region.”

  - This training is **FREE** for D.C. residents!

Part 1: Choosing a School



Part 2: Choosing a Loan

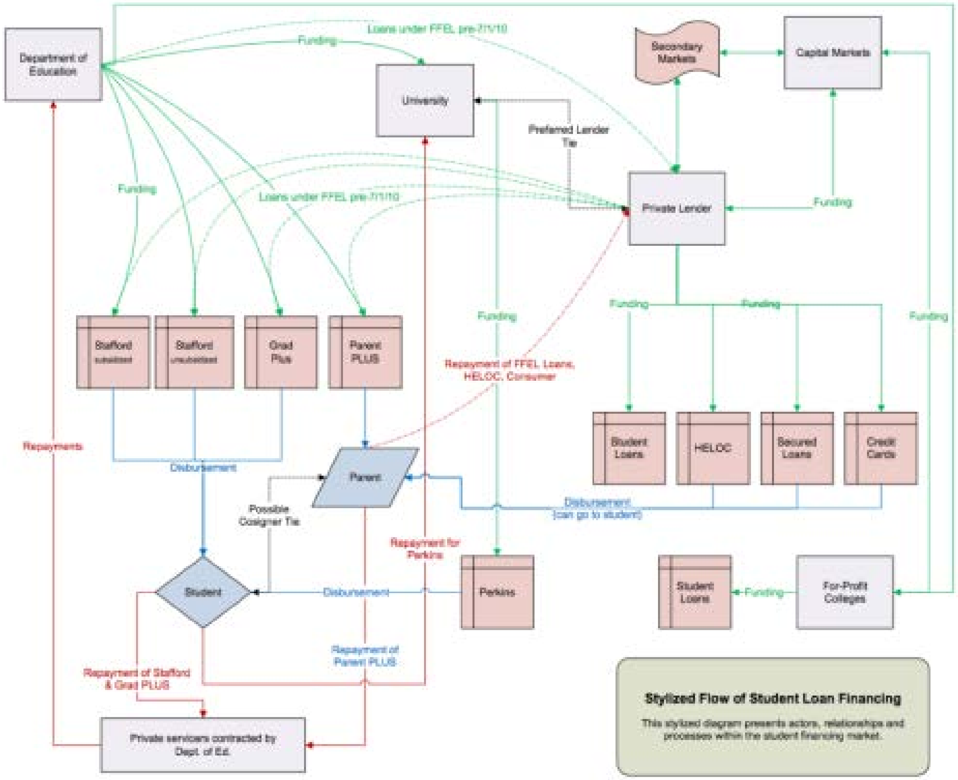
- If you can avoid a loan by paying for school with grants or scholarships, do it!

- If you do decide to take out a loan, pay attention to:
  - **Interest rates**
    - Federal loans almost always have lower interest rates than private loans!
    - Additionally, with some "subsidized" federal loans, the loan won't pick up *any* interest until after you graduate and start repayment!
  - **Payment schedules**
    - With federal loans, you don't have to make payments until after you graduate, but with many private loans, you have to make payments while you are in school!
  - **Repayment terms**
    - With federal loans, you can qualify for deferments and forbearances if you have trouble making payments, and you might be eligible for income-driven repayment plans and some loan forgiveness programs!

Part 2: Choosing a Loan

- It’s complicated!
- But, you can apply for most federal loan and grant programs by submitting a **Free Application for Federal Student Aid (FAFSA)**
- https://fafsa.ed.gov/

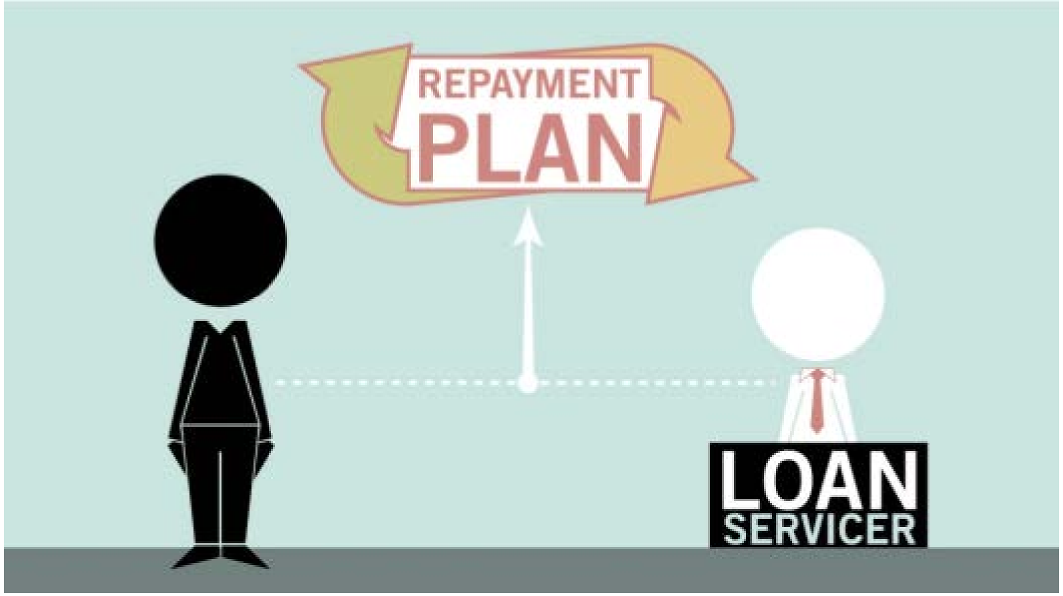
Figure 1
The Market for Student Loans



FEDERAL STUDENT LOANS: REPAYMENT

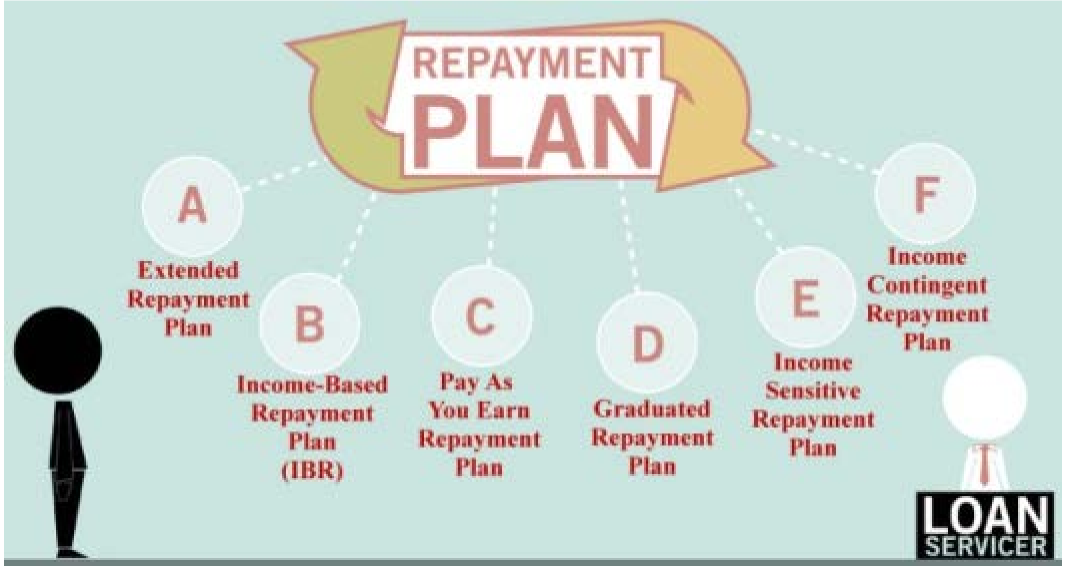
Repayment Plans

- Federal student loans enter **repayment** six months after you leave school, or drop below full-time enrollment status. When this happens, you will be notified by a **servicer** (Nelnet, Fedloan, Sallie Mae/Navient, and others), which is a company that has a contract with the Department of Education to handle loans.



Repayment Plans

- Your loan will automatically be entered into a **standard repayment plan**, under which the amount you owe is divided into 120 monthly payments, which you are scheduled to make over 10 years.
- But, **there are other repayment plans that might be better for you!**

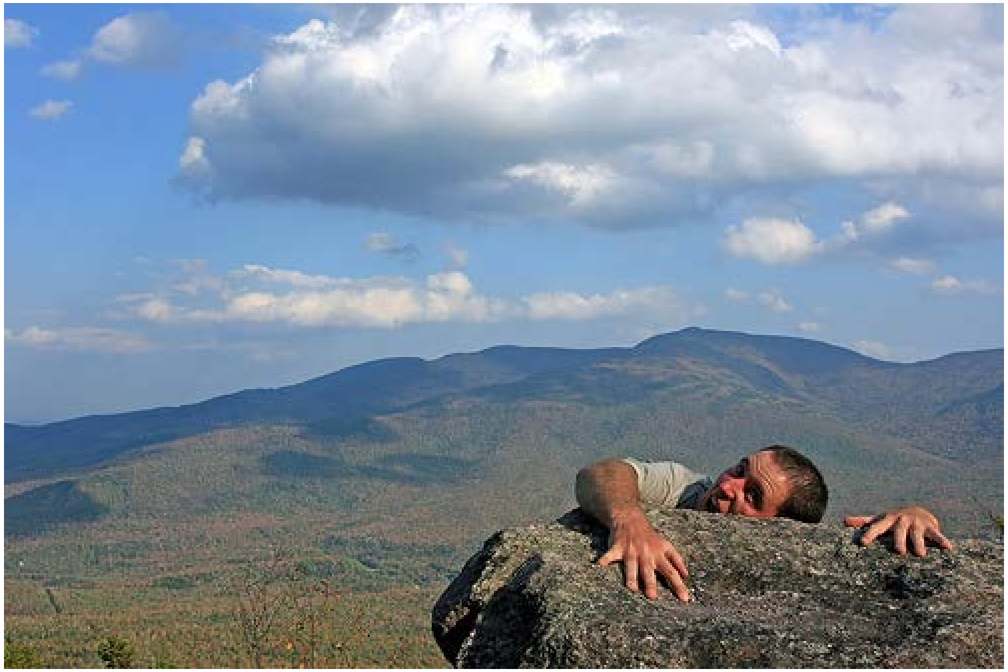


Repayment Plans

- **Income-Based Repayment** (IBR) &
  Pay As You Earn (PAYE)
  - Under these plans, your monthly payments are set at either 10 or 15 percent of your "discretionary monthly income," and whatever is left at the end of either 20 or 25 years is forgiven.
  - These plans make it easier to avoid the two "D"s—**delinquency** and **default**—but you will probably end up paying more money in the long run, because interest will be accruing on your loan during the longer repayment term.

Default: Why and How to Avoid It

- Bad things can happen if you fall behind on a federal student loan, but most of them don't start until you are in **default**—i.e., 270 days (9 months) behind on your payments.



- In default:
  - Collection fees added, and entire loan balance is "accelerated" (becomes due all at once)
  - Negative mark on your credit
  - Garnishment of wages, tax returns, some benefits, liens on your property
  - Ineligibility for federal student aid!

Default: Why and How to Avoid It

- You can avoid default in the short term by getting a **deferment** or **forbearance**—which are like putting a temporary freeze on your loan.
  - But, with some deferments, and all forbearances, interest will continue to accrue—and they are **only temporary**
  - To get a deferment or forbearance, just call your servicer and ask!

Default: Why and How to Avoid It

- You can avoid default in the long term by using an income-driven repayment plan, like **IBR** or **PAYE**, to keep your monthly payments affordable!

Income Based Repayment (IBR) Monthly Payment Amount*

Adjusted Gross Income (AGI)**	Family Size						
	1	2	3	4	5	6	7
$10,000	$0	$0	$0	$0	$0	$0	$0
$20,000	$35	$0	$0	$0	$0	$0	$0
$30,000	$160	$84	$9	$0	$0	$0	$0
$40,000	$285	$209	$134	$58	$0	$0	$0
$50,000	$410	$334	$259	$183	$108	$33	$0
$60,000	$535	$459	$384	$308	$233	$158	$82
$70,000	$660	$584	$509	$433	$358	$283	$207
$100,000	$1,035	$959	$884	$808	$733	$658	$582
$150,000	$1,660	$1,584	$1,509	$1,433	$1,358	$1,283	$1,207
$200,000	$2,285	$2,209	$2,134	$2,058	$1,983	$1,908	$1,832
$250,000	$2,910	$2,834	$2,759	$2,683	$2,608	$2,533	$2,457
$300,000	$3,535	$3,459	$3,384	$3,308	$3,233	$3,158	$3,082

- * This chart is intended only as an example: the actual monthly payment amounts are out of date

How to Get Out of Default

- If you are already in default, you have three basic options to get out:
  - (1) **Payment in full**
  - (2) **Rehabilitation**
    - To rehabilitate your loan, you need to contact your servicer to establish a "reasonable and affordable" monthly payment amount, and then you have to make 9 monthly payments during a 10 month period.
  - (3) **Consolidation**
    - To consolidate your loan, you essentially take out a new loan, and use it to pay off the defaulted loan. You must then make payments on the new loan.

Federal Student Loan Discharge

- **Closed School Discharge**: If your school closes while you're enrolled or soon after you withdraw, you may be eligible for discharge of your federal student loan.
- **False Certification/Unauthorized Payment Discharge**: Usually either (a) your school lied about you being eligible to receive a federal student loan (i.e., the falsely claimed that you had a high school diploma or GED), or (b) you didn't take out a student loan, but someone using your identity did.
- **Total and Permanent Disability Discharge**: Generally, you have a medical condition that makes you unable to work and is either expected to cause your death, has lasted at least five years, or is expected to last five years.

Federal Student Loan Discharge

- Employment-related discharges:
  - Public Service Loan Forgiveness
  - Teacher Loan Forgiveness
  - Perkins Loan Cancellation and Discharge

- Discharging student loans through bankruptcy: Harder than with other types of debt, but **not impossible**
  - Borrower must show that paying loan would be an “undue burden,” which most courts assess by determining whether (1) the borrower can maintain a “minimal” standard of living if forced to repay the student loans; (2) additional circumstances exist indicating that this state of affairs is likely to persist for a significant portion of the repayment period of the student loans; and (3) the borrower has made good-faith efforts to repay the loans. *Brunner v. New York State Higher Educ. Servs. Corp.*, 831 F. 2d 395 (2d Cir. 1987).