
Get Into The Game – Understanding Loan Repayment Strategies

- **Brenda Brown, University of Miami School of Law**
- **Laura Dickerson, Sallie Mae**

© 2007 Sallie Mae, Inc. All rights reserved

Learning Objectives

- Understand the complex nature of today's student loan portfolios
- Review the key repayment considerations
- Practice applying these concepts to case study examples to enhance knowledge and skill level for coaching student loan borrowers on how to best manage repaying their student loans.

© 2007 Sallie Mae, Inc. All rights reserved

Loan Portfolio Complexity

- Increased portfolio complexity requires that students have a solid understanding of the loans in their portfolios
 - Loan types– Are the loans Stafford, PLUS, Perkins, Consolidation, other?
 - Are the loans made through a federal program or a private loan program? Who is the loan holder/servicer?
 - Are the loans FFEL or DL?
 - Interest rates – Are the interest rates fixed or variable?
 - What are the [current] interest rates?
- Graduate/Professional Students
 - Most likely to have the most complex portfolios
 - May need to plan for time period between graduating and entering their profession

© 2008 Sallie Mae, Inc. All rights reserved

Loan Portfolio Complexity

Interest Rates

Loan	Interest Rate
Stafford (fixed)	6.8%
Stafford (variable)	6.62%
Stafford (variable)	7.22%
Grad PLUS (FFEL)	8.5%
Grad PLUS (DL)	7.9%
Perkins	5%
HPSL	5%
Consolidation	Fixed (weighted average)
Private loans	Varies

© 2008 Sallie Mae, Inc. All rights reserved

Repayment Comparison

Total Loan Amount	\$20,000 Loan *				\$60,000 Loan *			
	Initial Monthly Payment	Long-term Monthly Payment	Total Interest	Years in Repayment	Initial Monthly Payment	Long-term Monthly Payment	Total Interest	Years in Repayment
Standard	\$230	\$230	\$ 7,619	10	\$690	\$690	\$22,858	10
Income-sensitive (1 year interest-only)	\$113	\$230	\$ 8,979	11	\$340	\$690	\$26,938	11
Graduated (4 years interest-only)	\$113	\$339	\$ 9,853	10	\$340	\$1,017	\$29,558	10
Extended (Standard)	Not available on balances of \$30,000, or less				\$416	\$416	\$64,933	25
Consolidation (Standard)	\$154	\$154	\$16,855	20	\$394	\$394	\$81,897	30
Consolidation (Income-sensitive – 1 year interest-only)	\$115	\$154	\$18,230	21	\$344	\$394	\$86,022	31

* Examples assume Federal Stafford loans with the total loan amount due on the day repayment begins, 6.8% fixed interest rate on non-consolidated loans and 6.875% interest rate on consolidated loans, no borrower benefits, no pre-payments and no delinquent payments. All payment calculations are estimates only. Your monthly payment schedule and total payment estimates will vary.

© 2007 Sallie Mae, Inc. All rights reserved

Repayment Comparison

Total Loan Amount	\$100,000 Loan *				\$150,000 Loan *			
	Initial Monthly Payment	Long-term Monthly Payment	Total Interest	Years in Repayment	Initial Monthly Payment	Long-term Monthly Payment	Total Interest	Years in Repayment
Standard	\$1,151	\$1,151	\$38,096	10	\$1,726	\$1,726	\$57,145	10
Income-sensitive (1 year interest-only)	\$567	\$1,151	\$44,896	11	\$850	\$1,726	\$67,345	11
Graduated (4 years interest-only)	\$567	\$1,695	\$49,263	10	\$850	\$2,543	\$73,894	10
Extended (Standard)	\$694	\$694	\$108,222	25	\$1,041	\$1,041	\$162,332	25
Consolidation (Standard)	\$657	\$657	\$136,494	30	\$985	\$985	\$204,742	30
Consolidation (Income-sensitive – 1 year interest-only)	\$573	\$657	\$143,369	31	\$859	\$985	\$215,054	31

* Examples assume Federal Stafford loans with the total loan amount due on the day repayment begins, 6.8% fixed interest rate on non-consolidated loans and 6.875% interest rate on consolidated loans, no borrower benefits, no pre-payments and no delinquent payments. All payment calculations are estimates only. Your monthly payment schedule and total payment estimates will vary.

© 2007 Sallie Mae, Inc. All rights reserved

Repayment Timeline Complexities

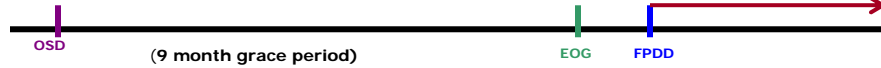
Grad PLUS and Existing Consolidation loans



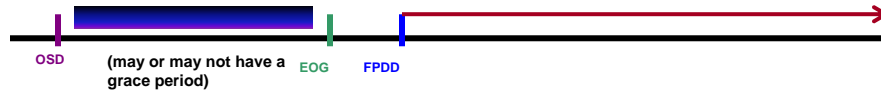
Stafford loans (unconsolidated & DL "in-school" Consolidation loans)



Perkins loans



Private loans



OSD – Out of School Date
EOG – End of Grace Period
FPDD – First Payment Due Date

Need to manage debt from this time period forward

1. Make payments (Full, partial or Interest-only)
2. Deferment
3. Forbearance

© 2007 Sallie Mae, Inc. All rights reserved

Debt Management

- **Repayment Strategy**
 - Borrowers should choose a repayment schedule to meet their financial goals
 - Borrowers should be encouraged to choose a repayment strategy for today and tomorrow
- **Repayment Amount**
 - Borrowers need to evaluate all influencing factors
 - Borrower benefits
 - Current and future salary expectations
 - Monthly budget
 - Personal spending and repayment patterns

© 2007 Sallie Mae, Inc. All rights reserved

Steps for Developing a Successful Strategy

- Borrowers should:
 1. Review their portfolio and financial habits
 2. Review goals and identify those important to them
 3. Prioritize their selected goals and review associated strategies
 4. Research other potential strategies
 5. Follow through!
 - Review their goals periodically
 - Other winning steps
 - Keep good records!
 - Prom notes, notices and disclosures, and correspondence from lenders/servicers
 - Keep good notes of phone conversations with lenders/servicers
 - The 411: who, what, when, etc.
-

© 2008 Sallie Mae, Inc. All rights reserved

Case Study: Practicing Building a Great Game Plan for Repayment

© 2007 Sallie Mae, Inc. All rights reserved

Case Study Process

- Review the information and key facts for each case study
 - Gather any additional important data
 - Discuss the options and possible strategies
 - Decide on strategies you would recommend for the borrower's situation
-

© 2007 Sallie Mae, Inc. All rights reserved

Case Study – Graduate School Student

- Law school student
- Early repayment Consolidation May 2006
- Fixed rate Stafford and Grad PLUS
- Graduating May 2008
- Has a job lined up in a corporate legal department
 - After passing the Bar exam

Loans	Interest Rate	Balance
Consolidation	4.75%	\$35,625
Grad Plus	8.5%	\$20,000
Stafford	6.8%	\$18,500
Perkins	5.0%	\$ 7,000
Total		\$81,125

© 2007 Sallie Mae, Inc. All rights reserved

Case Study – Graduate School Student

- New corporate job paying \$62,000 annually
- Has a mortgage and car payment
- Likes to live the “good life”
- Needs maximum monthly payment relief
- Points to ponder
 - Consolidate all loans into one loan?
 - Only consolidate newer fixed rate loans?
 - Not reconsolidate and take full repayment period to repay loans?
 - Postpone payments via a deferment or forbearance after graduation?

© 2007 Sallie Mae, Inc. All rights reserved

Alternate Repayment Option – Graduate Student

Payment Option: Pay loans separately					
Loan Type	Amount	Interest Rate	Maximum Term	Monthly Payment	
2006 Early Repayment Consolidation	\$35,625	4.750%	20 Years	\$231	
2006 - 2007 Stafford Loan	\$18,500	6.800%	10 Years	\$213	
2006 - 2007 Grad PLUS	\$20,000	8.500%	10 Years	\$248	
Perkins Loan	\$7,000	5.000%	10 Years	\$75	
Retain benefits				Total Loan Balance	\$81,125
				Total Monthly Payments (Years 1-10)	\$767
				Total Monthly Payments (Years 11-20)	\$231
				Total ALL Payments	\$119,760

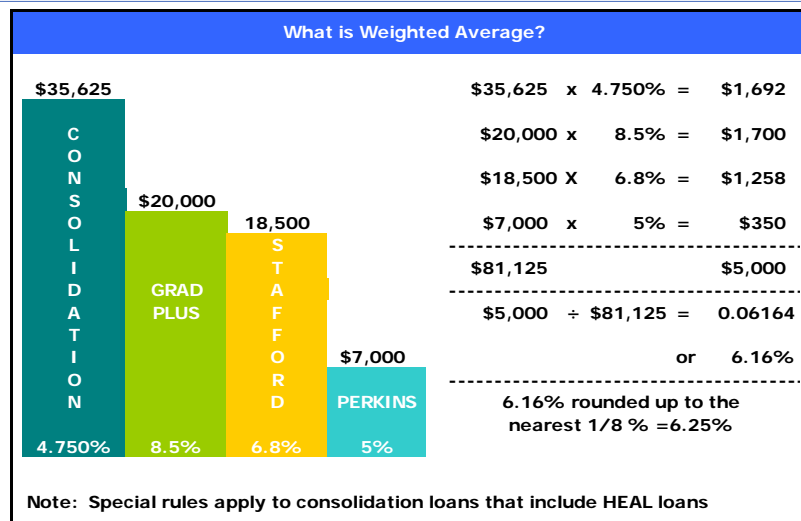
© 2007 Sallie Mae, Inc. All rights reserved

Alternate Repayment Option - Graduate Student

Payment Option: Pay loans separately - Extended Plan					
Loan Type	Amount	Interest Rate	Maximum Term	Monthly Payment	
2006 Early Repayment Consolidation	\$35,625	4.750%	25 Years	\$204	
2006 - 2007 Stafford Loan	\$18,500	6.800%	25 Years	\$142	
2006 - 2007 Grad PLUS	\$20,000	8.500%	25 Years	\$248	
Perkins Loan	\$7,000	5.000%	10 Years	\$75	
Retain benefits				Total Loan Balance	\$81,125
				Total Monthly Payments (Years 1-10)	\$669
				Total Monthly Payments (Years 11-25)	\$594
				Total ALL Payments	\$151,560

© 2007 Sallie Mae, Inc. All rights reserved

Weighted Average Calculation



© 2007 Sallie Mae, Inc. All rights reserved

Consolidation Repayment - Graduate Student

Payment Option: Combine all eligible loans - 30 year term, standard payment plan			
Loan Type	Amount	Loan Status at Time of 2007 Consolidation Application	Interest Rate
2006 Early Repayment Consolidation	\$35,625	Repayment, Deferment, or Forbearance	4.750%
2006 - 2007 Stafford Loans	\$18,500	Grace	6.800%
2006 - 2007 Grad PLUS	\$20,000	Repayment	8.500%
Perkins Loan	\$7,000	Grace	5.000%
TOTAL	\$81,125	---	---
Fewer benefits		Total Consolidation Balance	\$81,125
		Weighted Average Rate	6.160%
		Consolidation Rate	6.250%
		Monthly Payment	\$500
		Total ALL Payments **	\$179,821

© 2007 Sallie Mae, Inc. All rights reserved

Developing a Personal Strategy

Portfolio Management Goal	Repayment Strategy
<ul style="list-style-type: none"> Minimize total repayment costs 	<ul style="list-style-type: none"> Select the repayment option with the highest monthly payment and shortest repayment term that you can reasonably afford. Pay accruing interest (or as much as possible) during periods in which payments are not required (in-school, grace, deferment, and forbearance periods). Prepay loans with highest interest rates first. Ensure all required actions are taken to earn incentive benefits, if available. Consolidate variable rate loans when interest rates are low. Compare current incentive benefits to consolidation benefits <u>before</u> consolidating. Caution: Verify benefits are applicable to any new consolidation loans. Review options, if any, for receiving cancellation benefits from employer or federal government.
<ul style="list-style-type: none"> Aggressively repay higher interest rate loans 	<ul style="list-style-type: none"> Pay minimum amounts on lower rate loans and pay higher rate loans as aggressively as possible. Review repayment plan on lower rate loans to reduce the payments on those loans, allowing for aggressive repayment on higher rate loans. Review postponement options on lower rate loans to reduce or temporarily eliminate payments on those loans, allowing for aggressive repayment on higher rate loans. Do not consolidate higher rate loans, or consider consolidating them separately from other loans.
<ul style="list-style-type: none"> Minimize monthly payment (short-term) 	<ul style="list-style-type: none"> Review deferment options. Review graduated repayment plan. If given options, choose a graduated schedule with a first tier payment that corresponds to the length of time that repayment relief is needed. Review forbearance options. Caution: Check with your lender regarding the effect, if any, that using a forbearance may have on incentive benefits!
<ul style="list-style-type: none"> Minimize monthly payment (long-term) 	<ul style="list-style-type: none"> Review extended repayment option if you are eligible. Consolidate eligible loans to obtain maximum repayment term.
<ul style="list-style-type: none"> Minimize payments to multiple companies 	<ul style="list-style-type: none"> Consolidate eligible loans with a single lender. Consider obtaining a private consolidation loan with the lender of your federal loans (or vice versa).
<ul style="list-style-type: none"> Manage private loan repayment 	<ul style="list-style-type: none"> Pay accruing interest (or as much as possible) during periods in which payments are not required. Consult lender of private debts to review repayment plans available. Consider obtaining a private consolidation loan with the lender of your federal consolidation (or vice versa). Tip: Applying with a cosigner and/or improving your FICO score <u>before</u> consolidating private loans may result in better interest rates. Consider reducing monthly payment amounts on federal loans to aggressively repay private debts.
<ul style="list-style-type: none"> Manage credit card repayment 	<ul style="list-style-type: none"> Consider reducing monthly payment amounts on federal loans to aggressively repay credit cards. Stop or minimize use of credit card until balance is low enough to pay-in-full every month.

© 2007 Sallie Mae, Inc. All rights reserved

Final Thoughts

- Students look to your office for guidance
 - By proactively reaching out to your students from the moment they begin the process for financial aid, you reaffirm your position as trusted advisor
 - The opportunity to educate your student borrowers early and continuously empowers each borrower to make sound fiscal decisions that will impact their repayment strategy years down the road
 - The effort put into your counseling strategy can directly impact your overall cohort default rate
-