FASFAA Graduate & Professional Initiatives Committee

Debt Management as a Revenue Builder

The Misconception

Many key college administrators believe Debt Management initiatives only benefit the student

Key college administrators believe that Debt Management Counseling might alarm students deterring them from attending and ultimately decreasing revenue

As a result, it may be hard to get administrative support in regards to debt management initiatives.

The Reality

Advise administrators that the absence of debt management negatively affects the institution’s earning potential

Demonstrate how an effective debt management program can serve as a marketing tool and ultimately as a revenue builder.

The Impact

Educate college administration in regards to the common result of their student's bad borrowing habits.

Demonstrate how these reactions negatively impact the institution.

The Balancing Act…

Desired Lifestyle

VS.

Meeting Financial Obligations

Explain that students who do not borrow wisely and, as a result, leave the institution with unmanageable generally react in one of two ways:

- **Fail to meet their student loan obligations in order to live the lifestyle they desire.**
- **Repay student loans and live on a very tight budget unable to enjoy the comfortable lifestyle they expected as a result of obtaining their degree.**

The Balancing Act…

Desired Lifestyle

VS.

Meeting Financial Obligations

Student's Consequences

Student fail to make required payments entering into default

- A damaged credit rating for at least seven years
- Loss of generous repayment schedule and deferment options
- Possible seizure of federal and state income tax refunds
- Exposure to civil suit
- Referral of the account to a collection agency
- Liability for collection costs and attorney's fees
- Garnishment of wages
- Loss of eligibility of further Federal Title IV student assistance

The Institution's Consequences

School's cohort default rate rises

- Title IV funding (Stafford loans, etc) in jeopardy

Student retention drops

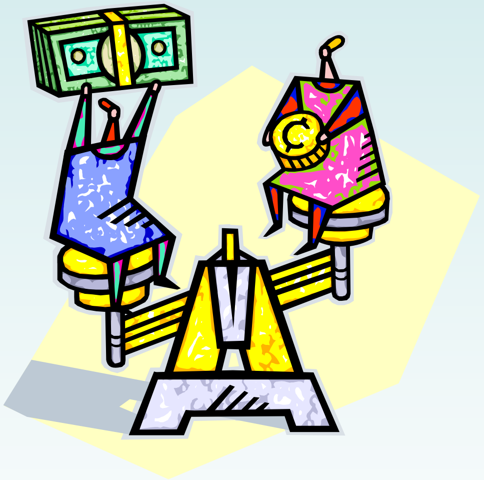
- Resentful alumni are unwilling and unable to return to your institution

New Student Recruitment Suffers

- Negative word of mouth and poor example of alumni discourage potential students from attending.

The Balancing Act…

Desired Lifestyle



VS.

Meeting Financial Obligations

Student's Consequences

- Student unable to maintain comfortable lifestyle
- Difficulty managing bills resulting in late payments
- Negatively impacted credit due to late payments
- Dependence on credit cards resulting in further debt
- Inability to afford desired items (i.e.. Purchase a home)

Institution's Consequences

-Student retention drops

Resentful alumni are unwilling to return to your institution.

-New Student Enrollment Affected

Negative word of mouth from alumni discourage other potential students from attending.

MISCONCEPTION

Students perceive the institution's tuition rates as the Students reason for their unmanageable debt.

Students believe they were overcharged.

REALITY

Only a percentage of student aid was applied to tuition.

Students generally receive what they are eligible for rather than simply what they need.

Maximum Federal Aid Available (Graduate)

(Fall/Spring/Summer)

Stafford Subsidized Loans = $12,500 per year/$4,250 per term

Stafford Unsubsidized Loans = $18,000 per year/$6,000 per term

Total of $30,500 in federal loan eligibility for one year.

Total of $61,000 for two year program.

Loan Repayment Schedule for $61,000

- Loan Interest Rate: 6.80% (fixed Stafford rate)
- Loan Term: 10 years
- Monthly Loan Payment: **$702.00**
- $84,240 annual salary

Borrowing Responsibly

– GTEP tuition and fees for 36 credit (2 year) program = **$17,225**.

– Maximum Stafford loans over two years = **$61,000**

– Difference of **$43,775** over two years.

Loan Repayment Schedule for $17,225

- Loan Interest Rate: 6.80% (fixed Stafford rate)
- Loan Term: 10 years
- Monthly Loan Payment: **$198.22**
- $23,786 annual salary

Cutting Down Expenses

Part Time Job
- 25 hours at $6.67 per hour (minimum wage) = gross income of $8,671 per year

$17,348 over two years

$61,000 – 17,348 = $43,652

Loan Repayment Schedule for $43,652

- Loan Interest Rate: 6.80% (fixed Stafford rate)

- Loan Term: 10 years

- Monthly Loan Payment: **$502.00**

- $60,240 annual salary

Borrowing comparison over two years

- Borrowing Maximum Stafford = $702.00
- Part Time-Job Scenario = $502.00
- Difference of **$200.00** per month

Borrowing comparison over two years

- Borrowing Maximum Stafford = $702.00
- Borrowing Tuition and Fees = $198.22
- Difference of **$503.78** per month

Improving relationships

- Financially Literate Graduates
- Examples of Success
- Positive Perception of your institution

Increasing revenue

- Improved reputation
- favorable word of mouth
- living examples of financial success

Part II:

Best Practices in Managing Loan Debts and Reducing your Default Rates

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When do we do Default Prevention?

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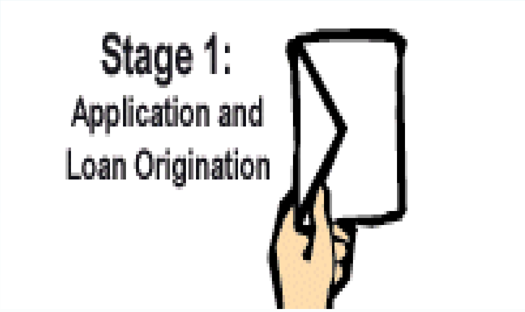
- **Initial counseling tools**
- Conducting an initial loan-counseling session.
- Entrance-interview components.
- Supplemental data sheet.
- Rights and responsibilities summary checklist.
- Federal Stafford loan test.
- How much can you afford to pay?



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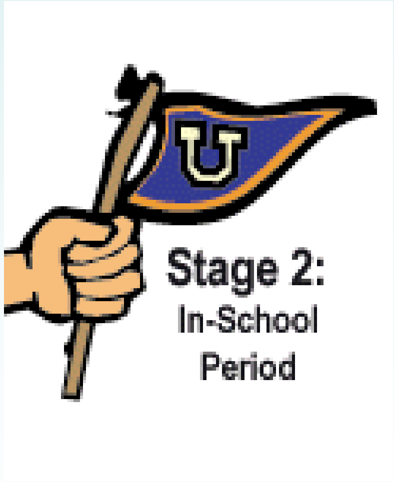
- **Tools for the in-school period**
- Ongoing counseling for continuing students.
- Counseling for students who withdraw from school.
- Counseling for graduating students.
- Academic-year completion letter.
- Lender notification of borrower-status change.
- Exit-interview procedures.
- Exit-interview components.
- Student-loan exit interview form



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- **Grace-period tools**
- Grace-period follow-up steps.
- Grace-period letters.
- Graduate letter.

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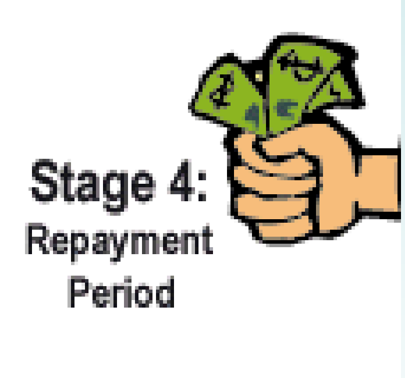
- **Tools** for the Repayment Period
- Standard repayment.
- Loan-repayment options.
- Deferments.
- Forbearance.
- Cancellation.
- Delinquency.
- Default.
- Forbearance letter.
- Deferment letter.
- Delinquency letters.



Debt Management Workshop

Adjust to the graduate or professional school experience.

- **How does my graduate / professional school experience differ from undergraduate training?**
- You know you're a graduate/professional student if ...
  - your office is better decorated than your apartment
  - you have brought a scholarly article to a sporting event
  - you have accepted guilt as an inherent feature of relaxation
  - you have more photocopy cards than credit cards
  - you find yourself explaining to children that you are in the "20th grade"

Taken from the *Harvard Crimson*, see:
(www.personal.umich.edu/~danhorn/gradhumor.htmlor)

Why should financial literacy be a priority to me?

- You're enrolled in graduate or professional school.
  - It's exciting!
  - It's a privilege.
  - It can be the most important investment in your future.
- You're starting to realize a whole new set of challenges.
  - It's more work.
  - It costs a lot of money.
  - Chances of success are uncertain.
- Investing in financial literacy programs will help you face these challenges and make your efforts (and money) count.

Make smart choices about spending and saving

- Develop a financial plan – Set realistic goals for financing and completing your education.
- Make a budget and stick to it.
- Borrow only what you need.

Make a budget and stick to it

- Where does your money go?

-Find out by preparing a budget.
-Identify general spending categories.
-Identify specific spending categories.

Borrow only what you need for school

- How much do you think you'll need to pay for school?
  - Tuition and fees.
  - Books and supplies.
  - Lab fees.
  - Health insurance.
  - Library fines.
  - Campus parking fees.
  - Computer and related expenses.
  - Monthly memberships and dues.

Find resources to assist you in financing your education.

- Support from parents.
- Grants and scholarships.
- Employment.
  - Part-time employment.
  - Work-study.
  - Internships.
- Other options.
- Student loans.
- Savings

How to borrow money for school

- Perkins loan.
- Stafford loan.
- Graduate PLUS loan.
- Alternative (private) loans.

Finishing school and repaying your loans

- Set reasonable career expectations.
- Develop strategies for managing your personal finances.
- Understand the importance of student-loan repayment.

Set reasonable career expectations

- Recognize your lifestyle preferences.
- Define what success means to you.
- Identify salary and benefits associated with your career choice.

Develop strategies for managing your personal finances

- Complete your education on time.
- Borrow only what you need.
  - How should I use my student-loan money?
  - How much can I afford to borrow?
  - Are credit cards a good way to pay for school or for my living expenses?

Develop strategies for managing your personal finances

- Begin planning for student-loan repayment.
  - Step 1: Begin by making an appointment with your school's financial-aid office or your lender.

Develop strategies for managing your personal finances

- Begin planning for student-loan repayment.
  - Step 2: Keep track of how much you owe each term.

Develop strategies for managing your personal finances

- Begin planning for student-loan repayment.
  - Step 3: Determine how much you can afford to pay on your student loans each month. Make interest-only payments on unsubsidized loans.

Understand the importance of student-loan repayment

- What are your responsibilities for repayment?
  - Whatever you borrow, you must pay back with interest.
  - Even if you do not complete your education, or you don’t find a job, or you’re dissatisfied with your academic program, you still must pay it back.
  - Student loans generally are not eligible for discharge through bankruptcy.

Understand the importance of student-loan repayment

- What should you do if you have problems meeting your repayment obligations?
  - Option 1: Deferment enables borrowers to postpone loan repayment for specified periods of time.
    - Generally, you must apply for deferment from your lender or loan servicer.
    - You must continue to make payments until your deferment is granted.

Understand the importance of student-loan repayment

- **What should you do if you have problems meeting your repayment obligations?**
  - **Option 2: Forbearance** is a temporary postponement or reduction of payments for a period of time because you are experiencing financial difficulty.
    - You must apply for forbearance from your lender or loan servicer.
    - You must continue to make payments until your forbearance is granted.

Beware: During both deferment and forbearance periods, interest continues to accrue on your loans. The only exception is subsidized loans on which the federal government subsidizes the interest during an authorized period of loan deferment.

Understand the importance of student-loan repayment

- What should you do if you have problems meeting your repayment obligations?
  - Option 3: Other repayment plans
    - Graduated repayment.
    - Income-sensitive repayment.
    - Extended repayment.
    - Loan consolidation.

Beware: Although these options provide you with some relief in the short term, they end up costing you more interest in the long term.

Understand the importance of student-loan repayment

- What are the consequences of late student-loan payments?
  - Delinquency: Means that you are late making your scheduled loan payments.
    - Delinquent accounts will be reported to your credit bureau.
    - They will become part of your financial history.
    - You may have to pay additional late fees.

Understand the importance of student-loan repayment

- What are the consequences of failing to make your payments?
  - Default: Occurs when you have violated your loan agreement by failing to make payments for 270 days or more.
    - Your lender can request immediate payment in full.
    - Wages can be garnished.
    - Tax refunds can be withheld.
    - A negative credit report will result.

Understand the importance of student-loan repayment

- Stay in touch with your lender, loan servicer and guarantor.
  - Make sure both your school *and* lender know where you are.
  - If you move, notify *all parties* of your address and phone number.
  - If you drop out of school (for any reason), notify your school and lender.
  - This is your responsibility throughout the term of your loan.

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Brenda M. Brown
University of Miami School of Law
bbrown@law.miami.edu

Chris Miller
USA Funds Services
chimille@usafunds.org

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Thank you for participating!

Please give us your feedback!