
It's A New Game – Managing Student Loan Portfolios



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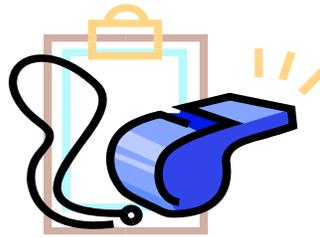
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Agenda

- **Rules of the Repayment Game**
 - Loan Portfolio Complexity
 - Consolidation Refresher
 - Debt Management
- **Different Borrower Profiles Require Different Game Plans**
 - Medical school students
 - Community college students
 - Law school students
- **Game Plan Review**

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Loan Portfolio Complexity



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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

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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 |

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Loan Portfolio Complexity

- Students need to be vigilant in keeping track of all loans
 - consolidated and non-consolidated loans
 - Avoid having a loan fall through the cracks
 - Keep track of who owns and who services their loans, and how to contact their lender / servicer
- Grace period
 - Time period after graduation before payments become due
 - Not available on all loans
 - Consult with lender on grace period for private loans
- Understand when payments will start
 - Repayment period begins at different times on different loans
 - Watch for payment notices
 - Notify lender of address changes

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Repayment Timeline Complexities

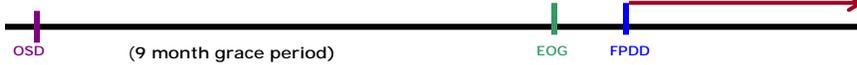
Grad PLUS and Existing Consolidation loans



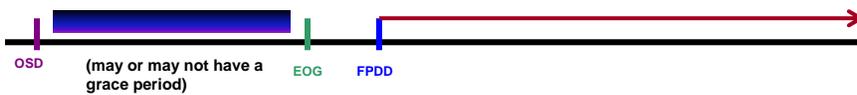
Stafford loans (unconsolidated & DL "in-school" Consolidation loans)



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 or Interest-only)
2. Deferment (UMEN or HRD?)
3. Forbearance (Internship/Residency?)

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Deferments and Forbearances Usage

- Calling a “timeout” at the right time can make all the difference, strategic use of deferments and/or forbearance can be a very good tool to manage repayment
 - Deferment
 - Economic hardship
 - In-school
 - Military
 - Unemployment
 - Forbearance
 - Discretionary
 - Financial hardship
 - Mandatory
 - Internship residency, national service, debt exceeds monthly income, etc
 - Mandatory/Administrative
 - Local or national emergency, military mobilization, designated disaster area, teacher loan forgiveness, etc.



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Repayment Plans

- FFEL or DL Loans
 - Standard
 - Graduated
 - **Extended**
 - Income-related plans
 - Income-Sensitive
 - Income-Contingent
 - Income-Based (not available until July 1, 2009)
- Private Loans
 - Will vary by loan program and lender
 - May be similar to plans available on federal loans
 - Consider how variable rate may affect monthly payment amount
 - Consult your lender for details

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Extended Repayment

- Repayment plan offering a 25 year repayment term
 - Could be structured as a standard schedule, graduated schedule, or choice of either
- Only available to “new borrowers” with no outstanding debt in that loan program (FFELP or DL, as appropriate) prior to October 7, 1998
 - FFELP loans: Total FFELP debt must exceed \$30,000
 - DL loans: Total DL debt must exceed \$30,000
- Reduced monthly payments due to 25-year term
- The 25-year repayment term often results in higher total repayment costs
- Not all borrowers will qualify for this repayment plan

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New Options in the Repayment Game

- Income-based repayment for FFEL and DL loan borrowers*
 - Effective July 1, 2009
 - Available to all borrowers who have partial financial hardship, except for FFEL or DL parent PLUS borrowers or FFEL or DL loan Consolidation loan borrower who repaid a parent PLUS loan through the Consolidation loan.
- Loan forgiveness for Public Service Employees*
 - Effective October 1, 2007
 - New loan forgiveness program for public service employees
 - The Secretary will forgive the remaining outstanding balance of the principal and accrued interest on an eligible Direct Loan for a borrower who is not in default and who makes 120 payments on the loan on or after October 1, 2007.

*Information here excerpted from the January 8, 2008 DCL
GEN-08-01 FP-08-01

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Loan Consolidation Refresher: A Veteran Player in A New Game

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Consolidation- Refresher

- Consolidation permitted only when loans are in a grace or repayment status, including deferment or forbearance
 - No spousal consolidation
 - Termination of consolidation eligibility upon receipt of a consolidation loan in either the FFEL or DL program, unless borrower meets certain specific conditions
 - Parallel terms between FFEL and DL consolidation loans (except as explicitly noted)
 - Elimination of Single Holder rule
 - (effective June 15, 2006)
 - **Loss of benefits on underlying loans**
-

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Thought for the day

Today's students have been taught that consolidation is a good way to lock in a low interest rate on their student loans and that it is something they definitely should do.

But is this true?

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Consolidation- Refresher

- Federal Loan Consolidation is no longer “one size fits all”
- When is consolidation a good option?
 - When lower monthly payments are needed to help to pay off higher rate debt
 - When long term payment relief is necessary
 - When variable interest rates are low and can be locked-in at a low fixed rate
 - When solid borrower benefits make a difference
 - When loan forgiveness options are not viable for the individual borrower’s circumstances

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T-Bill Rate Trend – May 29, 2007 to Feb 11, 2008



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Debt Management: What Goes Into a Good Game Plan

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Debt Management - General Tips

- Repayment behavior controls how quickly and inexpensively a loan will be repaid
 - To avoid delinquency and minimize costs, borrowers should select option with highest monthly payments that they can reasonably afford
 - Federal student loans have no prepay penalties
 - Can minimize the “required” monthly payment amount, but can pay more when budget permits
 - Can pay more on a monthly, quarterly, or annual basis, or even as an individual lump sum amount
 - Can use federal loan repayment strategies as a means for achieving goals on non-federal debts, then focus later on the federal debts
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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
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Steps for Winning the Game

- **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.
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Identifying Goals and Strategies

- Having multiple loan types in their portfolio creates a diverse set of options for successful loan repayment
- Students need to evaluate their financial goals, and follow a repayment strategy that achieves those goals
- Use “leading questions” if needed
- Prioritize goals
 - Minimize total interest costs
 - Aggressively repay higher interest rate loans
 - Minimize monthly payment (short-term)
 - Minimize monthly payment (long-term)
 - Minimize payments to multiple companies
 - Manage private loan repayment
 - Manage credit card repayment

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Developing a Personal Repayment Strategy

| IF YOUR FINANCIAL GOAL IS: | CONSIDER THESE REPAYMENT STRATEGIES | IF YOUR FINANCIAL GOAL IS: | CONSIDER THESE REPAYMENT STRATEGIES |
|---|---|--|--|
| Minimize total repayment costs | <p>Select the repayment option with the highest monthly payment and shortest repayment term that you can afford.</p> <p>Pay some or all of the accruing interest during periods in which payments are not required.</p> <p>Prepay loans with highest interest rates first.</p> <p>Ensure all required actions are taken to earn borrower benefits, if available.</p> <p>Investigate loan forgiveness and cancellation options.</p> <p>Consolidate variable rate loans when interest rates are low.</p> <p>Assess the value of borrower benefits on your current loans that you may lose by consolidating.</p> | Pay off higher interest rate loans quickly | <p>Make minimum payments on lower rate loans, adjusting your repayment plan if needed, and make the highest payments you can afford on higher rate loans.</p> <p>Review postponement options* on lower rate loans to allow you to make higher payments on your higher rate loans.</p> <p>Do not consolidate higher rate loans, or consider consolidating them separately from other loans.</p> |
| Minimize monthly payment (short-term) | <p>Investigate deferment options* to temporarily reduce or eliminate payments.</p> <p>Review graduated repayment plan options. You may be allowed to choose the appropriate length of time that your monthly payment is minimized.</p> <p>Investigate forbearance options to temporarily reduce or eliminate payments*.</p> | Manage private loan repayment | <p>Pay some or all of the accruing interest during periods in which payments are not required.</p> <p>Consult your private loan lender to evaluate repayment plans available.</p> <p>Consider reducing monthly payment amounts on federal loans to pay down private loans more quickly.</p> <p>Consider obtaining a private consolidation loan with the lender of your federal consolidation or vice versa.</p> <p>Applying with a cosigner and/or improving your credit score before consolidating private loans may result in better interest rates.</p> |
| Minimize monthly payment (long-term) | <p>Pursue an extended repayment option if you are eligible.</p> <p>Consolidate eligible loans to obtain maximum repayment term.</p> | Manage credit card repayment | <p>Consider reducing the monthly payment amounts on your federal loans to focus on paying off your credit cards.</p> <p>Stop or minimize the use of credit cards until your balance is low enough to pay-in-full every month.</p> |
| Minimize payments to multiple companies | <p>Consolidate eligible loans with a single lender.</p> <p>Consider obtaining a private consolidation loan with the lender of your federal loans (or vice versa).</p> | | |

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* Check with your lender to determine the potential effect that a deferment or forbearance may have on your ability to qualify for borrower benefits.

Different Game Plans for Different Student Portfolios



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Coach Pena-Villalobos

- Review of game – how medical and health professions students are a bit different
- Continuing Education – repeat the game plan
- Timeline is one of our most important tools
- Same game- different outcomes
- Options and resources



**NOVA
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Coach Brown



- Law school student game plan
 - Start teaching debt management early and often
 - Not just at entrance and exit counseling
 - On-going effort throughout law school
 - Provide workshops on different financial management topics
 - Schedule these at logical times
 - **Series of workshops during entrance counseling time**
 - » Borrower responsibilities
 - » Debt management
 - » Credit management
 - **3 session workshop series focusing on financial future that complements the online exit process just prior to graduation**
 - » Borrower responsibilities
 - » Developing an education debt repayment strategy
 - » Financial planning session to cover other financial topics
 - On-going one-on-one counseling with FAO staff throughout law school and beyond

**UNIVERSITY OF MIAMI
SCHOOL OF LAW**

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Game Plan Review

- 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
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Coaching Strategies to Empower Borrowers

- Do you know what your scheduled monthly payments will be?
- Are you going to be ready to make payments as they become due, or will you need to reduce or even postpone payments?
 - If the student will not be ready for payments, explore whether payments need to be reduced or postponed, consider asking why, and discuss how long repayment relief is needed.
- Are your loans with different lenders or servicers?
 - If yes: Will it be difficult for you to manage making payments to different places?

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Coaching Strategies to Empower Borrowers

- Do you need to reduce your monthly payment amount?
 - If yes: Do you understand that reducing your monthly payment will ultimately result in higher interest costs?
 - If yes: Do you need to reduce your payments for only a short period of time, or do you need long-term payment reductions?
- Do you intend to maintain a “hands on” approach with your loans?
 - Example: Do you plan on repaying your highest-rate loan quickly, then your next highest-rate loan, and so forth, in order to minimize your total interest costs?
 - Explore further how the student wants to manage the debts so you can identify appropriate options.

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Coaching Strategies to Empower Borrowers

- With credit cards, do you tend to pay just the minimum balance, pay a little more than the minimum, or pay the entire balance off within just a month or two?
 - For borrowers with variable rate loans Are you uncomfortable with having a variable-rate loan?
 - If yes: Explore whether there are reasons for the discomfort, e.g., perhaps the student doesn't realize there is a cap on the interest rate.
 - What benefits do you have on your current loans?
 - What do you have to do to earn the benefits?
 - Do you expect that you will be able to earn them?
 - Do you have student loans at different interest rates?
 - Did you borrow private student loans?
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Coaching Strategies to Empower Borrowers

- What additional debts (other than student loans), such as credit cards, do you have?
 - What are the interest rates of those debts?
 - Given the following possible financial goals, which are the most important to you, and how would you rank (prioritize) them?
 - Minimize total interest costs
 - Aggressively repay higher interest rate loans
 - Minimize monthly payment (short-term)
 - Minimize monthly payment (long-term)
 - Minimize payments to multiple companies
 - Manage private loan repayment
 - Manage credit card repayment
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