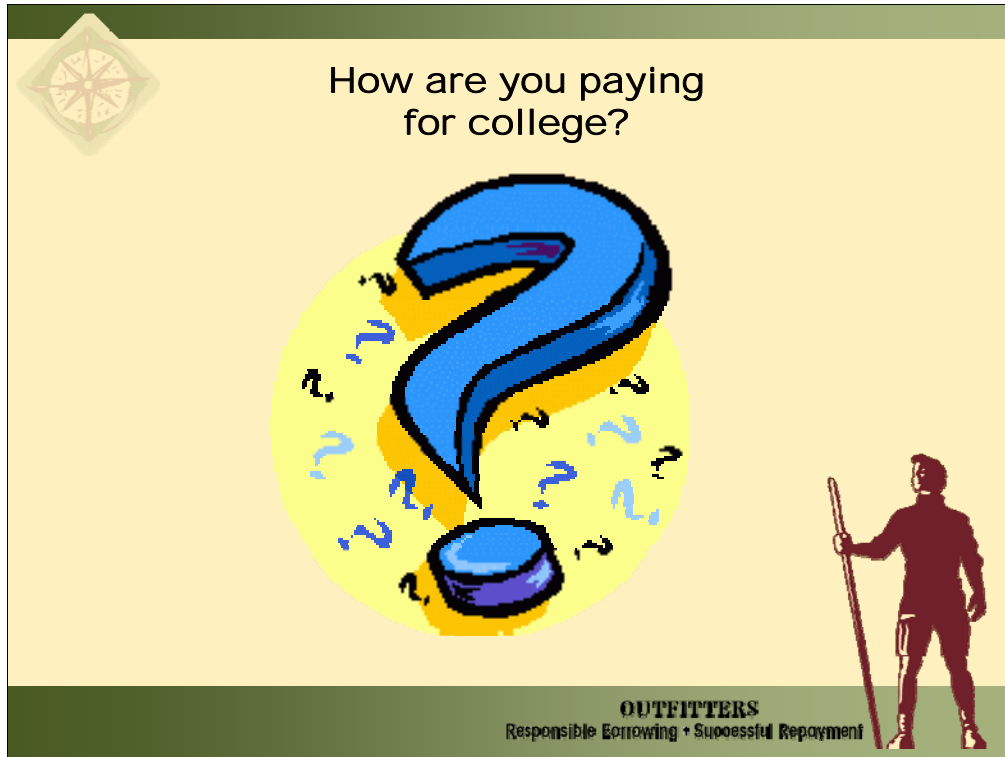


Welcome to “Choosing to Understand: Student Loans” sponsored by the Student Loan Outfitters Program through the (insert your school’s name) Office of Student Financial Aid. My name is (counselor’s name), and I am a Student Assistant for the Outfitters Program. The purpose of this module is to help us understand how to deal with student loans in a responsible manner.

Please feel free to ask questions during the presentation.



Ask the audience: How they are paying for college?

EXAMPLES:

Mom and Dad

Pell Grant

Student savings

Student loans

Parent loan

Part-time job

Grandparents


Relatives

Employee incentive

Scholarship

MOST Students Use Financial Aid

- Two-thirds of undergraduate students graduate with some debt.
- The average federal student loan debt for undergraduate students was \$18,900 in 2002.



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According to the results of the 2002 Nellie Mae National Student Loan Survey in “College on Credit: How Borrowers Perceive their Education Debt,” the average monthly loan payment for undergraduates in 2002 was \$182, while the average monthly loan payment for graduate students was \$388.

Report available at <http://www.nelliemae.com/>



One Option Is A Loan

- Your choices are:
 - Student Loans
 - Parent Loans
 - Private (Alternative) Loans



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We'll look at each of these three types of loans.



Student Loans

- One type is a Stafford or Federal Direct Loan
 - Provided by private lenders and guaranteed by the federal government OR provided by the U.S. government directly to students (Direct loans)
 - All lenders offer the same rate on Stafford/Federal Direct Loans
 - Stafford Loans can be subsidized or unsubsidized



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There are several types of student loans. Stafford/Federal Direct Loans are the most popular loans. Stafford Loans are made from either a private lender like a bank. Alternatively, if schools participate in the Federal Direct Loan Program, the funds come directly from the federal government to the student. Schools and colleges decide which of these two loan programs they will use for their students. The rules governing the two programs are the same.

Note to presenter: You may want to change this slide to be specific to your school.



Subsidized vs. Unsubsidized Loans

- A “**subsidized**” student loan: The federal government pays the interest on your loan while you are in school. Once you graduate or leave school, you’re responsible for the interest during repayment.
- An “**unsubsidized**” loan: You’re responsible for paying the interest which begins accruing (accumulating) when you receive the loan. You can add the interest to the principal.

Source: U.S. Department of Education (www.ed.gov)

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If your loan is subsidized, the government pays the interest on your loan while you are in school.

If your loan is unsubsidized, you’re responsible for the interest. You don’t have to pay it while you’re in school – you can add it to the the principal and repay it after you leave school.

Starting July 1, 2005, interest rates on Stafford loans are 5.3% (up 68% from last year) and on PLUS loans 6.1%.

There is a 6 month grace period after you graduate or leave school before repayment must start. The interest rate is variable -- in other words, it may be higher or lower than when you first received the loan.

Another type of student loan is...

- Perkins Loans
 - Offered to students with financial need
 - Provided by the school using federal funds (your school will be your lender)
 - Perkins loans are subsidized
 - There are limited funds for Perkins Loans

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Federal Perkins Loans is another type of loan that is made directly from the school to the student without a private lender being involved.

You have to show financial need to get this one. You demonstrate financial need on your FAFSA. These loans are subsidized.

The interest rate is 5% at repayment and fixed. There are limited funds for Perkins Loans. Student files need to be complete in the Office of Student Financial Aid by (insert your school's priority consideration deadline).

There is a 9 month grace period after you graduate or leave school before repayment must start.

There are service cancelable provisions for certain borrowers. That means you won't be expected to repay part or all of your loan. Examples include those in law enforcement and those teaching in areas where there is a critical shortage of teachers. Details are on your promissory note.



Parent Loans

- PLUS (Parent Loan for Undergraduate Students)
 - Loan provided by private lenders and by the federal government
 - Repayment is the responsibility of the parent
 - Repayment begins 60 days after the loan is fully disbursed



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There's also a type of loan designed for parents to pay for their child's college education. Parents can get these loans either from private lenders or directly from the federal government. While you can repay the parent loan, legally it's your parents' responsibility.

The interest rate is 6.1% in 2005-06.



Private (Alternative) Loans

- Offered by private lenders
- Tend to cost more than federal loans
- Have their own application but it must be approved by the school
- May require a credit check for approval



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Another type of loan is from a private lender. The advantage is that you don't have to fill out any federal forms but you're likely to pay more for a private loan.



Loan Consolidation

- Combines several student or parent loans into one bigger loan from a single lender
- Reduces the size of the monthly payment by extending the term of the loan BUT increases the total amount of interest paid
- Current law lets a borrower consolidate loans **ONLY ONCE**



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You would get a loan consolidation to combine several loans into one. The advantages are that you only make one payment after the loan consolidation and usually your payment is smaller because you have longer to repay the loan. BUT that means that you're paying a larger amount of interest. It could be to your benefit to pay the same monthly payment for the same period of time at a lower rate.

Current law lets a borrow consolidate loans only once.

When deciding to consolidate, it is important to contact your lender and discuss the advantages and disadvantages. There is also good consolidation information available at the Outfitters website, which is: <https://www.studentloanoutfitters.org>

Repayment Options

- **Standard Repayment**
- **Graduated Repayment**
- **Income Contingent**
- **Extended Repayment**

Source: U.S. Department of Education (www.ed.gov)

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There are various ways in which you can repay your student loan. You'll be asked to choose one before you begin payments. You begin repayment after you graduate or withdraw from school. You can switch from one payment plan to another once a year.

Standard Repayment: Fixed payments of at least \$50 a month for up to 10 years.

Graduated Repayment: Payments are small at first and gradually become larger. Based on the premise that as you work longer, your income increases, making you able to handle larger loan payments. This isn't available for PLUS loans, and isn't based on income.

Income-Contingent: A loan repayment schedule that is based on the borrower's income. Payments increase as income increases.

Extended Repayment: Borrowers make fixed payments of at least \$50 a month over a period generally between 12 to 30 years. For loans over \$30,000.

There are lots of terms that come up when you start talking about student loans.

Handout 1 (HO #1) is a good reference to help you understand those terms.

Consider using the activity "Which Repayment Plan is Right for Me?" as suggested in the introduction.



Which Repayment Plan Is Right for Me?


(\$13,000 in student loans)

- Situation 1: Just graduated from school; joining the Peace Corps
- Situation 2: Just graduated; have a respectable job with an income that supports needs
- Situation 3: Just graduated; good job; spouse is full-time student earning no income
- Situation 4: Extended Payment Plan?




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Use this slide if you're doing the activity "Which Repayment Plan is Right For Me"?



Estimated Repayment for Federal Direct Subsidized Loan

Total Borrowed	# of Payments	Monthly Repayment	Interest Charges	Total Repaid
\$2,625	60	**\$50	\$343.51	\$2,968.51
\$4,000	98	**\$50	\$875.74	\$4,875.74
\$7,500	120	\$79.55	\$2,045.87	\$9,545.87
\$10,000	120	\$106.07	\$2,727.70	\$12,727.70
\$15,000	120	\$159.10	\$4,091.73	\$19,091.73
\$23,000	120	\$243.95	\$6,274.11	\$29,274.11
\$46,000	120	\$487.90	\$12,548.21	\$12,548.21



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**Minimum monthly payment

This table is useful in estimating your required repayment. The estimated monthly payments and total interest charges are based on the standard 10 year repayment plan with a 5% interest rate. Information on graduated and income sensitive repayment options is available from your lender. These figures are only estimates. Specific questions about loan repayment should be directed to your lender.

Note: The information in the table was calculated using the calculator at <http://www.finaid.org/calculators/loanpayments.phtml>.

How Much Debt Can You Repay?

<i>Loan Debt at 6%</i>	<i>Minimum Annual Income Needed</i>
Less than \$5,000	\$6,661
\$5,000 to \$9,999	\$13,321
\$10,000 to \$24,000	\$33,304
\$25,000 +	\$67,704

Student Loan Payments Should Not Be More than 10% of Gross First Year Salary

SOURCE: Dear Student Letter, OSFA, <http://www.uga.edu/osfa/topics/20032004dearstudent.pdf>

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How much should you borrow? A general rule states that your maximum student loan payment should not exceed 10% of your gross first year salary. **Divide the income by 12 to see how much of your income you'll need to pay each month. Consider using the activity "How Much Student Debt Can I Afford?" as suggested in the introduction.** Please refer to **HO #2** for average income and recommended loan amounts.

Some use the rule of thumb for the Stafford Loan that a manageable debt load is about the same as your starting salary.

Think carefully about how much student loan debt you can manage. You do NOT have to take the full amount offered. In a national survey, **54%** of student loan borrowers said if they could begin again, they would borrow **less**. (*College on Credit*, 2003, Nellie Mae Corporation).

Consider using the activity "What Will My Salary Be?" as suggested in the introduction.



2004 Starting Salaries for BA Degree

By Curriculum for All Types of Employers	Fall 2003
Business Administration	\$38,254
English	\$31,113
Computer Science	\$49,036
Chemical Engineering	\$52,539
History	\$30,344
Mathematics	\$33,400-\$48,000



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Here are some mean national incomes that may provide some guidance about salaries after graduation. **Handout #3** has information on a larger number of majors.

Consider using the activity “What Will My Salary Be?” as suggested in the introduction.



What If I Can't Pay?

If you miss one or more payments you're delinquent. Miss more than one payment you could be in default. If you're in default, your options are:

- Postpone repayment
- Choose another repayment plan
- Contact the lender for help.



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If you miss one payment, be sure to make your next payment in full and on time. If you see that you can't pay, it's important to take some type of action. Don't just ignore it. Be sure to let your lender know.

Refer to Handout #1 for definitions of terms.



Postponing Repayment

- You can postpone repayment through:
 - Deferment – Lender lets you postpone paying the principal. Usually can defer a loan while in school at least half-time. May be available for unemployment or economic hardship.



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If you can't pay your student loans, you should attempt to postpone repayment. One way to do that is through a deferment. You'll have to show that you're in school at least half-time, are unemployed or have some other type of economic hardship. For the period of the deferment, you don't have to pay the principal.



Postponing Repayment

(continued)

- You can postpone repaying a loan through:
 - Forbearance – Lender lets you postpone or reduce payments, but interest charges continue to accrue. Must apply and typically granted in 12-month intervals for up to 3 years. Usually for extreme financial hardship or other unusual circumstances.



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Or you can apply for a forbearance – the lender lets you postpone or reduce payments but the interest charges keep accumulating. You usually have to show some extreme financial hardship or other unusual circumstance to get a forbearance.

 **What If I Don't Repay My Loan on Time...**

You could have your automobile impounded. 

Your credit record could be damaged. 

Your employer could find out. 

You could lose a professional license issued by the state. 

Your pay could be garnished. 

You could forfeit a state or federal income tax refund. 

You could be sued. 

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While students who are in default on their student loan now have more options than ever to repay their loans, being in default is an unpleasant experience. All of these things listed can happen if you are in default.

Student loans aren't dischargeable through bankruptcy – even if you file bankruptcy, you're still responsible for paying your student loan.



Getting Out of Default

- After 6 months of on-time payments you may be eligible for more financial aid.
- After 12 months of on-time payments and applying for and receiving “rehabilitation,” your loan is no longer in default. The record of default will be removed from reports to credit bureaus.



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If you default on your student loans, you can recover. Just start making your payments again. After 12 months, you can apply for something called “rehabilitation.” If it’s approved, your loans will be taken out of default.



The Main Points

- Student loan debt adds up quickly
- Have realistic expectations of your starting salary so you can estimate how much student loan debt you can afford
- Not paying back student loans can have major consequences
- Student loans are **NOT** free money
- Only ask for what you **NEED**



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For individual help contact:

Student Loan Outfitters
www.studentloanoutfitters.org
(800) 383-4222
outfitters@csac.state.ia.us



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The Outfitters Program funds Student Assistantship Grants to allow students like me to work on campus and offer peer counseling and financial literacy programs. I can help answer your questions and refer you to helpful resources. (Insert your school's info.)

Don't forget to ask participants to complete and return the evaluations!



Special thanks to the organizations involved in bringing this module to you.