Managing Debt, Delinquency, And Default

Speaker: Christie Smith
Date: October 18, 2018
Agenda

• Understanding Student Loan Debt
• Preventing Delinquency and Default
• Keys to Successful Loan Repayment
• Tools and Resources
Understanding Student Loan Debt
Annual cost of college over 10 years

Source: Sallie Mae How America Pays 2017
2016-17 average college price tag was $23,757

Source: Sallie Mae How America Pays 2017
Typical cost and resources vary by school type

How the Typical Family Pays for College, Average Amount, by School Type

<table>
<thead>
<tr>
<th>School Type</th>
<th>2-year public</th>
<th>4-year public</th>
<th>4-year private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Amount</td>
<td>$10,065</td>
<td>$23,490</td>
<td>$42,551</td>
</tr>
<tr>
<td>Student borrowing</td>
<td>$1,646</td>
<td>$4,362</td>
<td>$8,745</td>
</tr>
<tr>
<td>Parent borrowing</td>
<td>$1,954</td>
<td>$1,631</td>
<td>$4,313</td>
</tr>
<tr>
<td>Parent income &amp; savings</td>
<td>$3,046</td>
<td>$2,582</td>
<td>$8,923</td>
</tr>
<tr>
<td>Student income &amp; savings</td>
<td>$7,278</td>
<td>$10,651</td>
<td>$16,926</td>
</tr>
<tr>
<td>Relatives &amp; friends</td>
<td>$1,966</td>
<td>$6,110</td>
<td>$2,954</td>
</tr>
<tr>
<td>Scholarships &amp; grants</td>
<td>$1,514</td>
<td>$7,786</td>
<td>$2,196</td>
</tr>
</tbody>
</table>

How the Typical Family Pays for College, Funding Source Share, by School Type

<table>
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<th>School Type</th>
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<th>4-year public</th>
<th>4-year private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student borrowing</td>
<td>2%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Parent borrowing</td>
<td>22%</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Parent income &amp; savings</td>
<td>6%</td>
<td>26%</td>
<td>21%</td>
</tr>
<tr>
<td>Student income &amp; savings</td>
<td>19%</td>
<td>13%</td>
<td>6%</td>
</tr>
<tr>
<td>Relatives &amp; friends</td>
<td>6%</td>
<td>5%</td>
<td>2%</td>
</tr>
<tr>
<td>Scholarships &amp; grants</td>
<td>35%</td>
<td>31%</td>
<td>40%</td>
</tr>
</tbody>
</table>

Source: Sallie Mae How America Pays 2017
Delinquency & Default (Federal/Private Loans)

Delinquency & defaults on student loans can adversely impact borrower’s credit history

- Delinquency
  - Failure to make payment(s) when due
  - Reported to credit bureaus; affects borrowers history

- Default
  - Collection agencies may take over, adding to cost
  - Lender can take legal action
  - School can withhold records
  - Federal defaults could include wage garnishment & withholding of federal tax refunds
  - Student loans are rarely discharged in bankruptcy
Early student borrower outreach

– Familiarize student borrowers with their debt obligations, payment options, and default consequences

– Communications are most effective at key transition points in the loan’s lifecycle

– Provide helpful, relevant, and easy-to-understand information

– Offer resources well before the student borrower enters repayment (in-school, separation, grace)
Discussion ...

- Entrance Counseling
- Financial Literacy
- Repayment Calculators/Sheets

What works on your campus?
Default prevention techniques for schools

• Counsel student borrowers on repayment options tailored to individual needs during in-school and grace periods on private loans

• Attempt to contact targeted populations prior to entering repayment

• In-school and/or grace-period outreach campaigns

• Work with your school’s repayment-and default-management staff and third-party servicer(s)
  – Use specialized strategies and counselors for late-stage delinquencies
Borrower outreach tips for schools

- Communicate with student borrowers by means they feel most comfortable
  - Video narratives embedded within e-mail messages
  - Reduce text-laden letter content in all (direct- and e-mail) communications

- Offer “non-banking” hours of operation
  - Nights, weekends, etc.

- Consider using alternate telephone numbers and/or personal references
Financial literacy tips for schools

– While there is no “one-size-fits-all” solution, families should follow the “1-2-3” approach:
  – Start with money you do not have to repay. This can include scholarships, grants and work study.
  – Explore federal education loans. Apply by completing the FAFSA.
  – Consider filling in the gap with a responsible private education loan.

– Counsel students to be aware of their likely future earning power associated with their degree and program-of-study
  – Borrow accordingly

– Encourage student borrowers to access NSLDS
    – Locate a summary of their federal student loans
Financial literacy tips for schools (continued)

- Advise student borrowers to request a free credit report annually [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com)

- Help students to understand their credit score and purpose of a good score. (Sallie Mae provides borrowers their FICO score on a regular basis.)

- Require students to demonstrate financial literacy in a forum that your school deems appropriate

- Create videos and letter content on relevant topics
  - Student loan repayment
  - Money management
    - Budget building exercises
  - Securing gainful employment
    - Interview tips, resume building, etc.
Understand Your loan portfolio

• Retrieve the NSLDS SCHPR1 School Portfolio Report on a monthly basis
  – Augment NSLDS data with information from loan servicers

• Segment your school’s portfolio based on various “risk” attributes
  – Account status and delinquency ranges
  – Separation reason
    o Graduated, withdrawn, dismissed
  – Account balance

• Identify student borrowers who are “at-risk” of defaulting by the close of the CDR evaluation period (September 30)
Default management and default aversion tips

• Promote principal-reducing payment via “standard” repayment terms

• Promote automatic debit account enrollment
  – Take advantage of interest rate reductions for on-time repayment

• Help student borrowers develop a “payment relationship” with their loan-servicers

• Suggest students explore federal repayment plan options
  – IBR, ICR, graduated, extended repayment plans

• Make student borrowers aware of deferment entitlements for federal loans

• Refer students to their private lenders to see what options are available
Tips in Locating Your Students

- Verify demographic information during every student borrower interaction (via phone, in-person, etc.)
- Call archived telephone numbers on file and contact personal references if available
- Use third-party data providers to obtain the “freshest” demographic information associated with student borrower
Keys to Successful Loan Payment
# Federal Loan Repayment Plans

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Eligible Loans</th>
<th>Monthly Payment &amp; Timeframe</th>
<th>Quick Comparison</th>
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</table>
| **Standard Repayment Plan** | • Direct Subsidized and Unsubsidized Loans  
• Subsidized and Unsubsidized Federal Stafford Loans  
• All PLUS loans  
• All Consolidation Loans (Direct or FFEL) | • Payments are a fixed amount of at least $50 per month.  
• Up to 10 years (or 30 years for Consolidation Loans) | Borrower will usually pay less over time than under other plans |
| **Graduated Repayment Plan** | • Direct Subsidized and Unsubsidized Loans  
• Subsidized and Unsubsidized Federal Stafford Loans  
• All PLUS loans  
• All Consolidation Loans (PLUS or FFEL) | • Payments are lower at first and then increase, usually every two years, and are for an amount that will ensure your loans are paid off within 10 years (10 to 30 years for Consolidation Loans) | Borrower will pay more for your loan over time than under the 10-year standard plan. |

# Federal Loan Repayment Plans

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| Extended Repayment Plan      | • Direct Subsidized and Unsubsidized Loans  
                                 • Subsidized and Unsubsidized Federal Stafford Loans  
                                 • All PLUS loans  
                                 • All Consolidation Loans (Direct or FFEL) | • Payments may be fixed or graduated, and will ensure that loans are paid off within 25 years  | • Monthly payments would be lower than the 10-year standard plan or graduated repayment plan  
                                 • If you are a:  
                                 • Direct Loan borrower, you must have more than $30,000 in outstanding Direct Loans  
                                 • FFEL borrower, you must have more than $30,000 in outstanding FFEL Program loans  
                                 • Borrowers will pay more for their loan over time than under the 10-year standard plan. |

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| Income Based Repayment (IBR) | • Direct Subsidized and Unsubsidized Loans  
• Subsidized and Unsubsidized Federal Stafford Loans  
• All PLUS loans made to students  
• Consolidation Loans (Direct or FFEL) that do not include Direct or FFEL PLUS loans made to parents | • Monthly payments will be 10 or 15 percent of discretionary income  
• Payments are recalculated each year and are based on updated income and family size  
• If married, the borrower’s spouse’s income or loan debt will be considered only if they file a joint tax return  
• Any outstanding balance on your loan will be forgiven if borrower has not repaid loan in full after 20 years (undergrad) or 25 years (graduate)  
• Borrower may have to pay income tax on any amount that is forgiven | • Borrower must have a high debt relative to income  
• Monthly payments will be lower than payments under the 10-year standard plan.  
• Borrower will pay more for the loan over time than they would under the 10-year standard plan.  
• Any outstanding balance on your loan will be forgiven if borrower has not repaid loan in full after 20 years (undergrad) or 25 years (graduate)  
• You may have to pay income tax on any amount that is forgiven |

# Federal Loan Repayment Plans

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| Pay As You Earn Repayment Plan (PAYE)       | • Direct Subsidized and Unsubsidized Loans  
• Direct PLUS loans made to students  
• Direct Consolidation Loans that do not include (Direct or FFEL) PLUS loans made to parents | • Maximum monthly payments will be 10 percent of discretionary income  
• Payments are recalculated each year and are based on updated income and family size  
• If borrower is married, spouse's income or loan debt will be considered only if they file a joint tax return  
• Any outstanding balance on the loan will be forgiven if it's not repaid in full after 20 years | • For new borrowers on or after 10/1/2007, and must have received a disbursement of a Direct Loan on or after 10/1/2011  
• Borrower must have a high debt relative to income  
• Monthly payments will be lower than payments under the 10-year standard plan  
• Borrower will pay more for the loan over time than they would under the 10-year standard plan  
• Any outstanding balance on the loan will be forgiven if it's not repaid in full after 20 years  
• Borrower may have to pay income tax on any amount that is forgiven |

# Federal Loan Repayment Plans

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<th>Quick Comparison</th>
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</table>
| Revised Pay As You Earn Repayment Plan (REPAYE) | • Direct Subsidized and Unsubsidized Loans  
• Direct PLUS loans made to students  
• Direct Consolidation Loans that do not include PLUS loans (Direct or FFEL) made to parents | • Monthly payments will be 10 percent of *discretionary income*  
• Payments are recalculated each year and are based on updated income and family size  
• If borrower is married, spouse’s income or loan debt will be considered, whether taxes are filed jointly or separately (with limited exceptions)  
• Any outstanding the your loan will be forgiven if borrower hasn’t repaid the loan in full after 20 or 25 years | • Any Direct Loan borrower with an eligible loan type may choose this plan.  
• The monthly payment can be more than the 10-year Standard Plan amount.  
• Borrower may have to pay income tax on any amount that is forgiven.  
• Good option for those seeking Public Service Loan Forgiveness (PSLF) |

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<tr>
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</table>
| Income Contingent Repayment Plan (ICR) | • Direct Subsidized and Unsubsidized Loans  
• Direct PLUS Loans made to students  
• Direct Consolidation Loans       | • Monthly payment will be the lesser of  
• 20 percent of discretionary income, or  
• the amount borrower would pay on a repayment plan with a fixed payment over 12 years, adjusted according to income  
• Payments are recalculated each year and are based on updated income, family size, and the total amount of your Direct Loans  
• If married, spouse's income or loan debt will be considered only if they file a joint tax return or choose to repay Direct Loans jointly with spouse  
• Any outstanding balance will be forgiven if borrower hasn’t repaid loan in full after 25 years. | • Any Direct Loan borrower with an eligible loan type may choose this plan.  
• Monthly payment can be more than the 10-year Standard Plan amount.  
• Borrower may have to pay income tax on the amount that is forgiven.  
• Good option for those seeking Public Service Loan Forgiveness (PSLF).  
• Parent borrowers can access this plan by consolidating their Parent PLUS Loans into a Direct Consolidation Loan. |
| Income Sensitive Repayment Plan       | • Subsidized and Unsubsidized Federal Stafford Loans  
• FFEL PLUS Loans  
• FFEL Consolidation Loans         | • Monthly payment is based on annual income but loan will be paid in full within 15 years. | • Borrower will pay more over time than under the 10-year Standard Plan.  
• The formula for determining the monthly payment amount can vary from lender to lender  
• Available only for FFEL program loans which are not eligible for PSLF |
Understanding Grace Periods

Grace Period - period of time after a borrower graduates, leaves school or drops to less than half-time before monthly payment of principal and interest begins

• Payments may not be required during this period

• No application required

• Loan specific, varies according to loan – once used completely, it’s gone
  – Direct Subsidized and Unsubsidized loans have a six-month grace period
  – Private and Institutional loans: check your promissory note

• Unsubsidized federal loans continue to accrue interest during the grace period

• Taking advantage of a grace period does not adversely impact credit
Ways to Defer Payments

- Grad PLUS loans issued on or after July 1, 2008, include a six-month post-school deferment that essentially aligns with the Stafford grace period.

- Forbearance can also be used to temporarily postpone payment if necessary for Consolidation loans and older Grad PLUS loans.

- Borrower can postpone repayment on federal loans via a deferment or forbearance:
  - Borrower has to meet the qualifying conditions for a deferment or a forbearance.

Direct Subsidized, Unsubsidized and some private loans offer grace periods

Federal Consolidation Loans and Grad PLUS loans do not have grace periods
Understanding Federal Loan Deferments

Deferment: period when a borrower who meets certain criteria may postpone loan payments

- Application may be required depending on deferment type; recertification for subsequent deferment periods may also be required

- Federal student loan deferments are “borrower” specific, meaning eligibility is attached to the borrower and there is a max deferment time allotted for certain deferments

- The government pays interest on a borrower’s behalf for subsidized loans during authorized deferment periods

Note: Unsubsidized loans continue to accrue interest for which the borrower is responsible. Unless the interest is paid by the borrower, it may be capitalized (added to your principal balance) at the end of the deferment period. To keep your total loan cost lower, you may want to consider paying all or some of the interest that accrues during this time.
Understanding Federal Loan Forbearance

Discretionary Forbearance: allows a borrower who cannot make scheduled payments to temporarily delay or reduce the payments

- Interest continues to accrue on subsidized and unsubsidized loans during a forbearance period.

- Interest that accrues during the forbearance remains the borrower’s responsibility.

- Unpaid interest may be capitalized at the end of the forbearance depending on the loan type and when the loan was disbursed. Additionally, there is a max forbearance time allotted.

- Capitalization of interest increases the amount to pay back
  - results in a higher monthly payment amount after the forbearance.
  - To keep your total loan cost lower, you may want to consider paying all or some of the interest that accrues during this time.

TIPS:
Be careful, the use of forbearance adds expense!

Forbearances can help you stay out of delinquency and default
Impact of interest capitalization

Interest capitalization occurs when unpaid interest is added to the principal amount of a loan, increasing the principal amount outstanding.

- Examples:
  - On a $50,000 loan, interest capitalized at the end of a 12 month deferment would be $3,400 with an interest rate of 6.5% with a loan term of 10 years. This will increase the total loan cost by $1,295.60 over the life of the loan.
  - On a $100,000 loan, the interest capitalized at the end of a 12 month deferment would be $6,800 with an interest rate of 6.5% with a loan term of 10 years. This will increase the total loan cost by $2,591.20 over the life of the loan.

Source: Information gathered on 9/24/18 http://www.finaid.org/calculators/scripts/interestcap.cgi
Federal Loan Forgiveness Program for Public Service Employees

• Eligibility limited to Federal Direct Student Loan Program (FDLP), Stafford PLUS and Consolidation
  – FFELP Stafford, PLUS and Consolidation are not eligible

• FFELP Borrowers may consolidate in the FDLP

• Additionally, borrowers must have:
  – Made 120 on-time monthly payments beginning after October 1, 2007 during eligible public service employment.
  – Payments must be made under one of the qualifying payment plans
    – All income-driven repayment plans
  – Worked full time in eligible public service employment for ten years after October 1, 2007.
  – At the time the remaining loan balance is forgiven, must be employed in an eligible public service job.

Other loan forgiveness programs may also be available – do your research!

Source: studentaid.ed.gov
Private Loan repayment

Private Student Loans

• Unsubsidized for life of loan

• Generally have a grace period prior to the time the student borrower is required to make principal and interest payments

• Residency and internship deferments may be available

• Forbearance and/or Deferment may be available
  – Consult the loan servicer for information

• Repayment terms vary
  – Options may be available

  ° NOTE: Check promissory note(s) for details
Paying off loans early

• Student borrowers can always prepay federal student loans without penalty
  – Some private student loans can also be prepaid without penalty
    NOTE: student borrowers should check with their servicer

• Be aware of the relative cost
  – After making the scheduled monthly payment, make additional payments towards private loans and/or unsubsidized federal loans that have the highest interest rates and/or most frequent capitalization to save money

• Loan payments are typically applied first toward fees, then interest, and finally principal – check the promissory note for additional information
Tools and Resources
How can you help?
Key tips for managing student loans

• Student borrowers should understand their student loan portfolio
  – Know what types of loans they have
  – Know their lenders and servicers
  – Know how much they owe
  – Know what their interest rate and monthly payments are
  – Know what borrower benefits are available
• Understand interest capitalization and its impact
• Know grace, deferment, and forbearance options
• Know federal loan repayment plan options
• Avoid delinquency and default
• Keep good records
• Know your resources
Keep Good Records – A Student’s To Do List

• Get all loan documents together: keep them on file!
  – Promissory notes
  – Disclosure statements
  – Award Letters
• Exit interview information
• Open and READ student loan mail
• Bookmark loan servicer’s websites
• Notify loan servicer(s) of name & address changes
• Document calls to servicer: date/time of call & person who handled the call
• Keep important numbers available
• Consider using an interactive tracking/budgeting tool
OPTIONAL – Student loan checklist

**Student loan and financial planning checklist**

As you get ready to leave school, understanding your student loan repayment options and responsibilities may not be your first priority. This student loan and financial planning checklist can help you get organized. Start by collecting all of your student loan documents and keep them in one file. Examples of these documents include Master Promissory Notes, award letters, lender servicer communications, disclosure statements, and exit interview information.

### Helpful resources

- **Create your FSA ID** for access to the Federal Student Aid’s online systems: 
  - [FSAID.ed.gov](http://www.FSAID.ed.gov)

### Important advice for students

#### Student loan and financial planning checklist

- **Identify the types of student loans you have and understand their terms and conditions**, such as interest rates and loan balances. Identify your student loan servicers and their contact information.
  - [Federal Student Loans: NSLDS.ed.gov](http://www.NSLDS.ed.gov)
  - [Private Loans: AnnualCreditReport.com](http://www.AnnualCreditReport.com)

- **Federal Direct Loan documents** (for Direct Subsidized Stafford, Direct Unsubsidized Stafford, Direct PLUS Loans for Graduate & Professional Students, Direct PLUS Loans for Parents): Go to StudentAid.gov to find Master Promissory Notes and Disclosure Statements.
  - [StudentAid.gov](http://www.StudentAid.gov)

- **Federal FFEL Loan documents** (FFEL Subsidized Stafford, FFEL Unsubsidized Stafford, FFEL PLUS Loans for Graduate & Professional Students, FFEL PLUS Loans for Parents): These include Master Promissory Notes and disclosure statements.
  - Contact your lender or servicer

- **Federal Perkins Loan documents**: These include Master Promissory Notes and disclosure statements.
  - Contact your lender or servicer

- **Private/alternative loan documents**: These include promissory notes and communications, Truth-in-Lending disclosures, bills, emails, and letters.
  - Contact your lender or servicer

- **Keep your contact information up to date.**
  - Contact your lender or servicer

- **Save time**—Sign up to manage your account online and receive email communications.
  - Contact your lender or servicer

- **Save money**—Sign up for automatic debit and avoid any borrower benefits or repayment incentives that may save you money.
  - Contact your lender or servicer

- **Know your monthly payment amounts and due dates**—Know when your loan(s) enter repayment, your monthly payment amount(s), and due dates.
  - Contact your lender or servicer

- **Federal loan repayment plans and calculators**—Visit [StudentAid.ed.gov](http://www.StudentAid.ed.gov) to identify the repayment options available on your loans and review the associated costs.
  - [StudentAid.ed.gov](http://www.StudentAid.ed.gov) or contact your lender or servicer

- **Repaying your private/alternative loans**—Refer to the promissory note and communications from your servicer.
  - Contact your lender or servicer

- **Postponing repayment on federal loans**—Trouble making payments? Visit [StudentAid.ed.gov](http://www.StudentAid.ed.gov) to research deferment, forbearance, and other forms of payment relief.
  - [StudentAid.ed.gov](http://www.StudentAid.ed.gov) or contact your lender or servicer

- **Loan consolidation for federal loans**—Research loan consolidation options at [StudentAid.ed.gov](http://www.StudentAid.ed.gov).
  - [StudentAid.ed.gov](http://www.StudentAid.ed.gov) or contact your lender or servicer

- **Loan forgiveness for federal loans**—Visit [StudentAid.ed.gov](http://www.StudentAid.ed.gov) to research loan discharge and forgiveness opportunities and conditions.
  - [Loan forgiveness for federal loans](http://www.StudentAid.ed.gov)

- **Understand student loan interest deduction**—Look for IRS Form 1098-E (Student Loan Interest Summary).
  - Your student loan servicer(s) or your tax advisor

**Tracking my loans**

- **Type of loan**
  - Servicer
  - Servicer contact info
  - Loan amount
  - Interest rate
  - Grace period (Yes or No)
  - Action date

*Action date is the date you want to begin taking action on your loans. For instance, if you have a grace period a possible action could be contacting your servicer 30–40 days prior to its expiration date. Or, if you don’t have a grace period you may want to contact your servicer 30–40 days before your graduation date.*

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Resources for Students

• School financial aid office

• Lender/servicer

• Federal Student Aid Ombudsman
  – U.S. Department of Education – FSA Ombudsman
  – http://www.ombudsman.ed.gov or 1-877-557-2575
  – Federal Loan Servicers:
    ° Great Lakes - 800-236-4300 - www.mygreatlakes.org
    ° My FedLoan - 800-699-2908 - www.myfedloan.org
    ° Nelnet - 888-486-4722 - www.nelnet.com
    ° Navient - 800-722-1300 – www.navient.com

• NSLDS - www.nslds.ed.gov
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