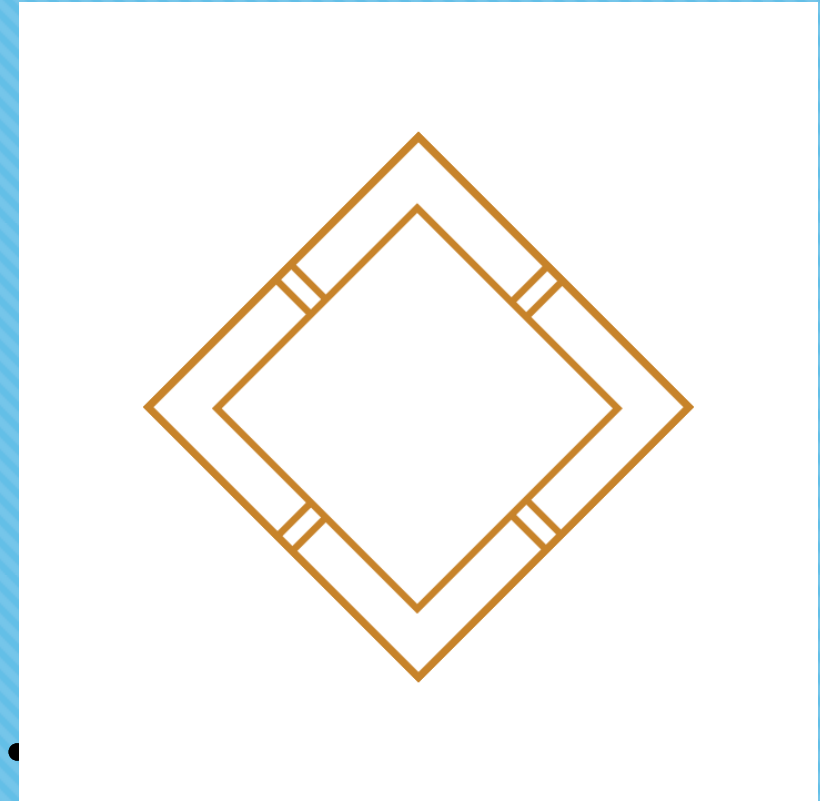


Introduction to Student Loans for Financial Advisors

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I. Types of Student Loans

II. Balance-Driven Repayment Plans

III. Income-Driven Repayment Plans

IV. Refinancing vs. Consolidating

V. Public Service Loan Forgiveness

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Private vs. Federal Loans

Private student loans are issued by banks and the repayment plans are determined by the lender



Federal Loans are issued by the federal government or are otherwise controlled by federal law



Private vs. Federal Loans

7.6%



92.4%



Private vs. Federal Loans

Find private loans on a credit report



Find federal loans through the National Student Loan Data System (NSLDS)



Types of Federal Loans

Direct Loans

FFEL Loans

Perkins Loans

Types of Federal Loans

Direct Loans

- Subsidized
- Unsubsidized
- Parent PLUS Loans
- Graduate PLUS Loans
- Consolidated

FFEL Loans

- Subsidized
- Unsubsidized
- Parent PLUS Loans
- Graduate PLUS Loans
- Consolidated

Perkins Loans

Once you understand the type of loan, you can begin to figure out how to repay it



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Payment Plans: Federal Loans



Payment Plans: Federal Loans



**Balance-driven
plans**

Payment Plans: Federal Loans



**Balance-driven
plans**

Fixed

Graduated

Fixed Repayment Plans

Pay the same amount every month to pay off the principal entirely in a set number of months.

\$100,000 in loans
6.2% interest
10 year repayment

Fixed Repayment Plans

Pay the same amount every month to pay off the principal entirely in a set number of months.

\$100,000 in loans
6.2% interest
10 year repayment

\$1,120 per month

Fixed Repayment Plans

Pay the same amount every month to pay off the principal entirely in a set number of months.

\$100,000 in loans
6.2% interest
10 year repayment

\$1,120 per month
\$134,400 over the life of the loan

Fixed Repayment Plans

Month	Payment	Interest	Principal	Balance
0				\$ 100,000.00
1	\$1,120.00	\$516.67	\$603.33	\$ 99,396.67
2	\$1,120.00	\$513.55	\$606.45	\$ 98,790.22
3	\$1,120.00	\$510.42	\$609.58	\$ 98,180.63
4	\$1,120.00	\$507.27	\$612.73	\$ 97,567.90
5	\$1,120.00	\$504.10	\$615.90	\$ 96,952.00
6	\$1,120.00	\$500.92	\$619.08	\$ 96,332.92
7	\$1,120.00	\$497.72	\$622.28	\$ 95,710.64
8	\$1,120.00	\$494.50	\$625.50	\$ 95,085.14
9	\$1,120.00	\$491.27	\$628.73	\$ 94,456.42
10	\$1,120.00	\$488.02	\$631.98	\$ 93,824.44
11	\$1,120.00	\$484.76	\$635.24	\$ 93,189.20
12	\$1,120.00	\$481.48	\$638.52	\$ 92,550.68
13	\$1,120.00	\$478.18	\$641.82	\$ 91,908.86
14	\$1,120.00	\$474.86	\$645.14	\$ 91,263.72
15	\$1,120.00	\$471.53	\$648.47	\$ 90,615.25
16	\$1,120.00	\$468.18	\$651.82	\$ 89,963.43
17	\$1,120.00	\$464.81	\$655.19	\$ 89,308.24
18	\$1,120.00	\$461.43	\$658.57	\$ 88,649.66
19	\$1,120.00	\$458.02	\$661.98	\$ 87,987.69

Graduated Repayment Plans

Start with a lower monthly payment than a fixed plan and gradually increase monthly payment every two years until the loan is paid off in the set amount of time

**\$100,000 in loans
6.2% interest
10 year repayment**

Graduated Repayment Plans

Start with a lower monthly payment than a fixed plan and gradually increase monthly payment every two years until the loan is paid off in the set amount of time

\$100,000 in loans
6.2% interest
10 year repayment

\$642 initial payments
\$1,926 final payments
\$143,720 over the life of the loan

Length of Repayment Plans

	Perkins			
Fixed	10 year fixed			
Graduated				

Length of Repayment Plans

	Perkins	FFEL, Direct of any amount		
Fixed	10 year fixed	10 year fixed		
Graduated		10 year graduated		

Length of Repayment Plans

	Perkins	FFEL, Direct of any amount	FFEL, Direct with \$30,000+ debt	
Fixed	10 year fixed	10 year fixed	25 year fixed	
Graduated		10 year graduated	25 year graduated	

Length of Repayment Plans

	Perkins	FFEL, Direct of any amount	FFEL, Direct with \$30,000+ debt	Consolidated Loans
Fixed	10 year fixed	10 year fixed	25 year fixed	10-30 years for depending on balance
Graduated		10 year graduated	25 year graduated	

Payment Plans: Federal Loans



Payment Plans: Federal Loans



**Income-driven
plans**

Income-Driven Repayment

Income Based Repayment

Pay As You Earn

Revised Pay As You Earn

**Income-Contingent
Repayment**



**Income-driven
plans**

Income-Driven Repayment

- **Ingredients:**
 - Annual Salary
 - Household Size
 - Discretionary Income Requirement



Income-Driven Repayment

Consider Susie, a medical resident with \$250,000 in debt. She earns \$60,000 as a resident. She's single and has no kids. She wants to apply for REPAYE which requires her to pay 10% of her discretionary income onto her loans.

Income-Driven Repayment

$$\left(\text{Annual Salary (AGI or Paystubs)} - \left(1.5 * \text{Federal Poverty Guideline Based on Household Size} \right) \right) * 0.1 = \text{Monthly Payment}$$

12

Income-Driven Repayment

$$\left(\$60,000 - \left(1.5 * \$12,140 \right) \right) * 0.1 = \text{Monthly Payment}$$

12

Income-Driven Repayment

$$\left(\$60,000 - \frac{\$18,210}{12} \right) * 0.1 = \text{Monthly Payment}$$

Income-Driven Repayment

$$\left(\frac{\$41,790}{12} \right) * 0.1 = \text{Monthly Payment}$$

Income-Driven Repayment

\$4,179

=

Monthly
Payment

12

Income-Driven Repayment

\$348

=

**Monthly
Payment**

IDR Eligibility

- **Income Based Repayment:** 10% or 15% depending on when you took out loans, FFEL and Direct Loans
- **Pay As You Earn:** 10%, but there are timing requirements, Direct Only
- **Revised Pay As You Earn:** 10%, no timing requirements, Direct Only, spousal income always included, significant interest subsidy benefits
- **Income-Contingent Repayment:** 20%, parent PLUS loans qualify

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Refinancing vs. Consolidating

What happens when you change federal loans?

Private Loans vs. Federal Loans

Private student loans are issued by banks and the repayment plans are determined by the lender

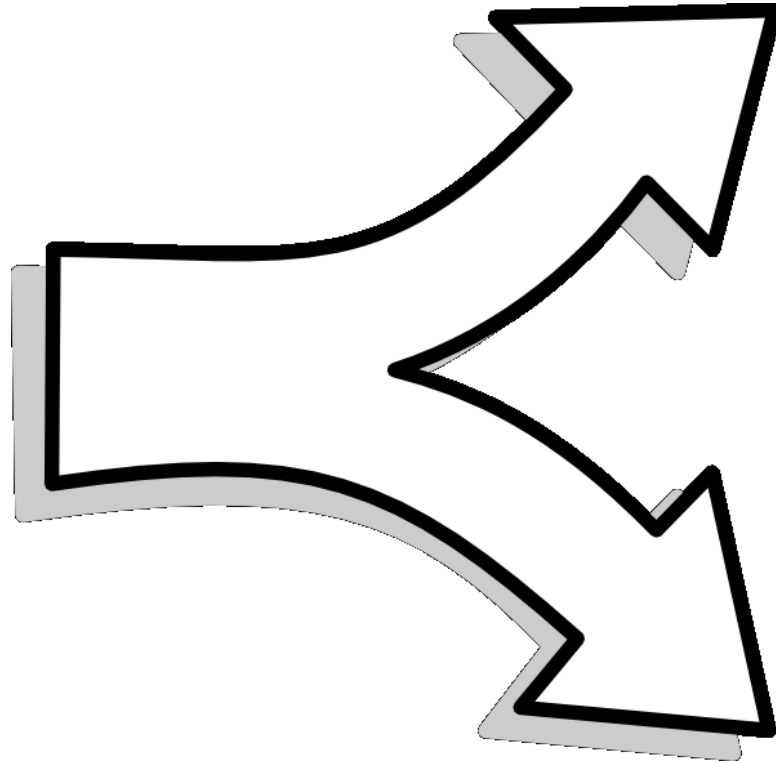


Federal Loans are issued by the federal government or are otherwise controlled by federal law



Refinancing vs. Consolidating

**Changing
federal
loans**



Consolidating

*Stay in the federal system

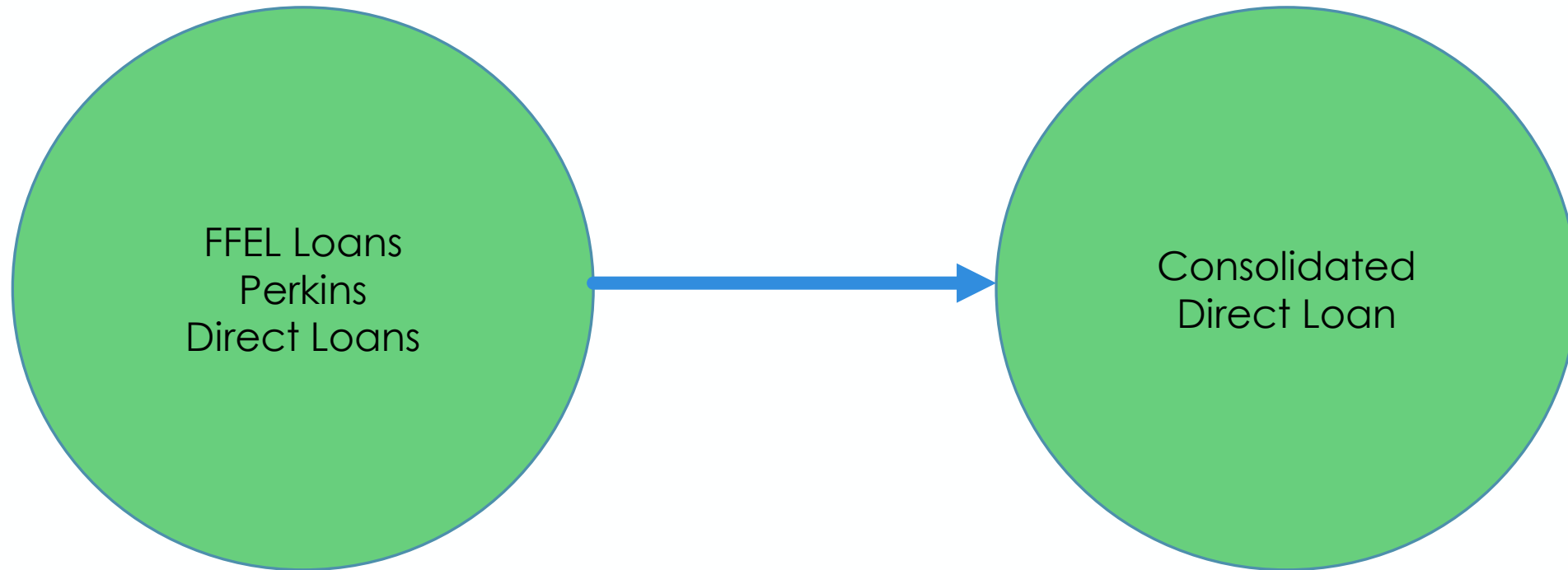


Refinancing

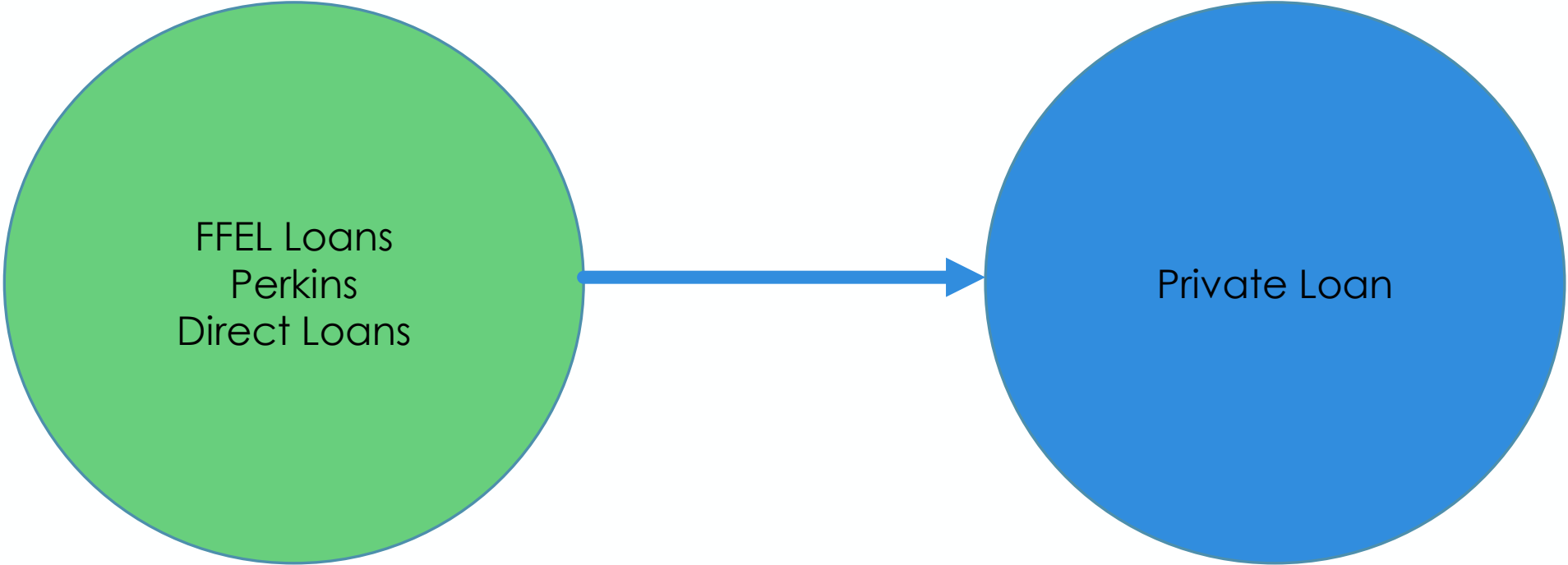
*Go into the private system



Consolidating



Refinancing

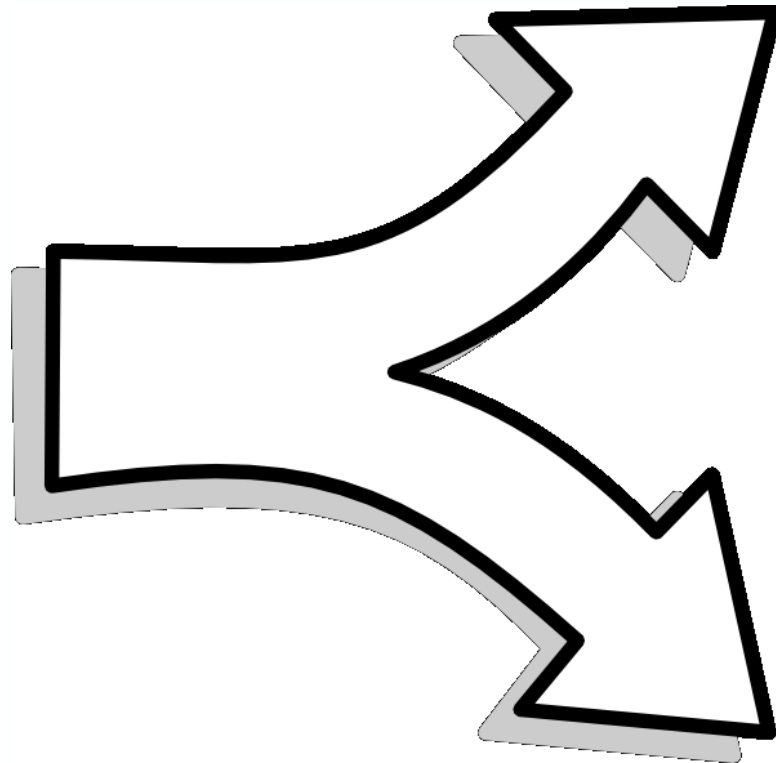


Refinancing vs. Consolidating

Once you refinance federal loans into private loans, you cannot go back into the federal system.

Refinancing vs. Consolidating

**Changing
federal
loans**



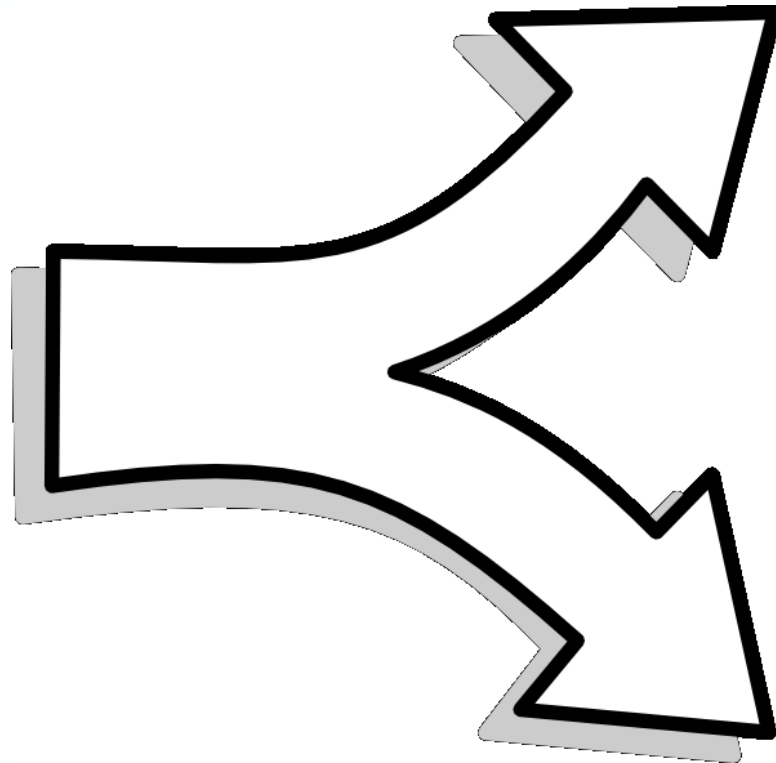
Consolidating

Refinancing

- *Benefits in the private system
- *Save on interest

Refinancing vs. Consolidating

Changing
federal
loans



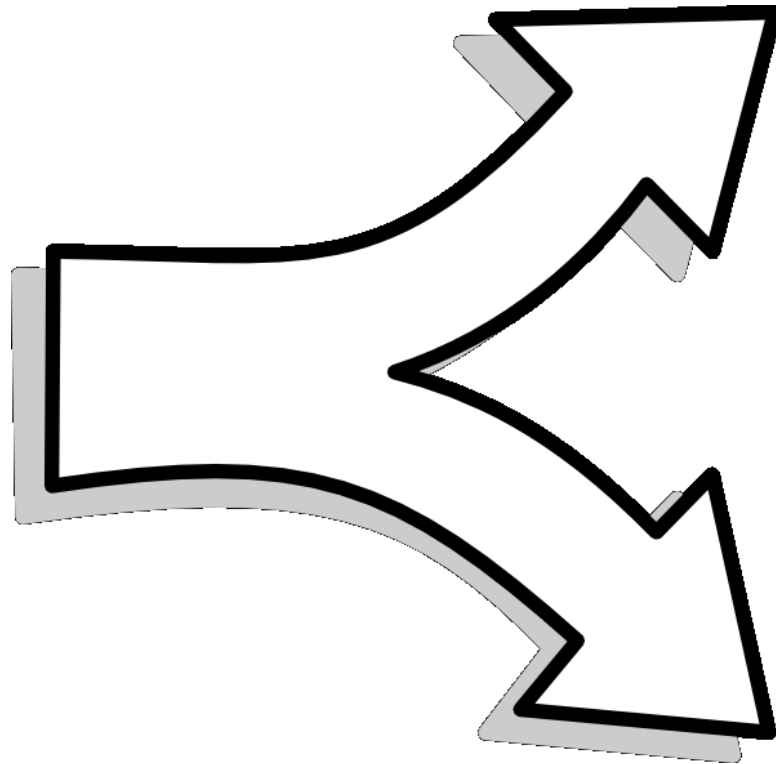
Consolidating

Refinancing

- *Benefits in the private system
- *Save on interest
- ***Lose access to PSLF and income-driven repayment plans**

Refinancing vs. Consolidating

**Changing
federal
loans**



Consolidating

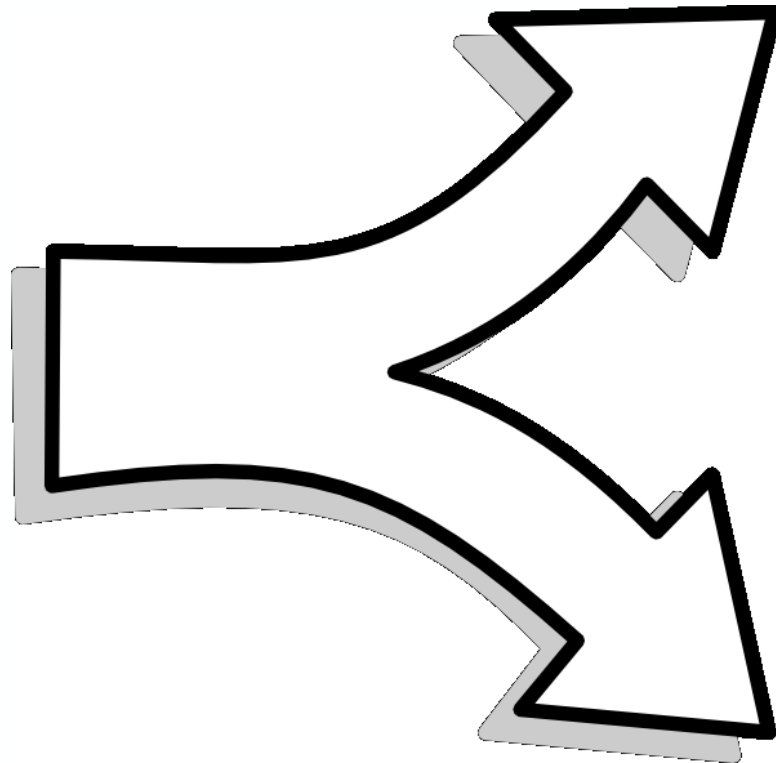
- *Stay in the federal system
- *No interest savings
- *Simplify monthly payments

Refinancing

- *Benefits in the private system
- *Save on interest
- *Lose access to PSLF and income-driven repayment plans

Refinancing vs. Consolidating

**Changing
federal
loans**



Consolidating

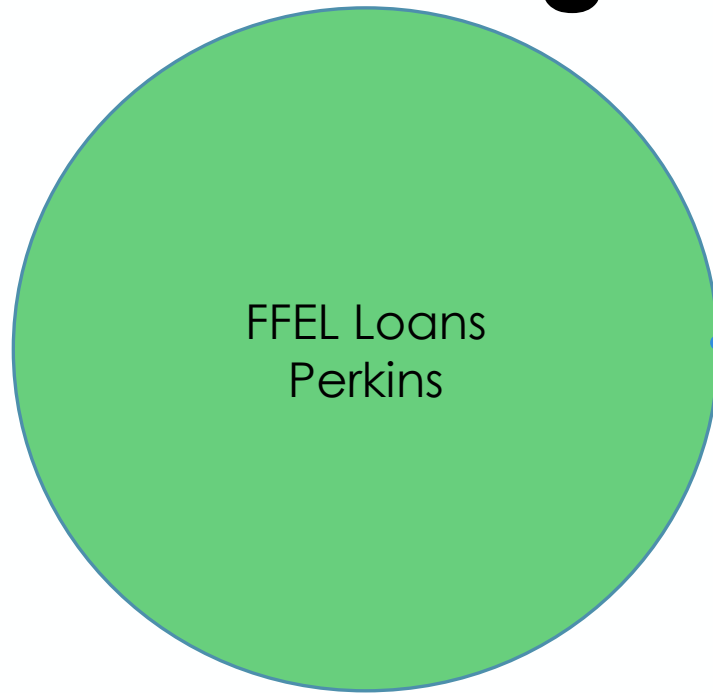
- *Stay in the federal system
- *No interest savings
- *Simplify monthly payments
- ***Make old loans eligible for PSLF and income-driven repayment plans**

Refinancing

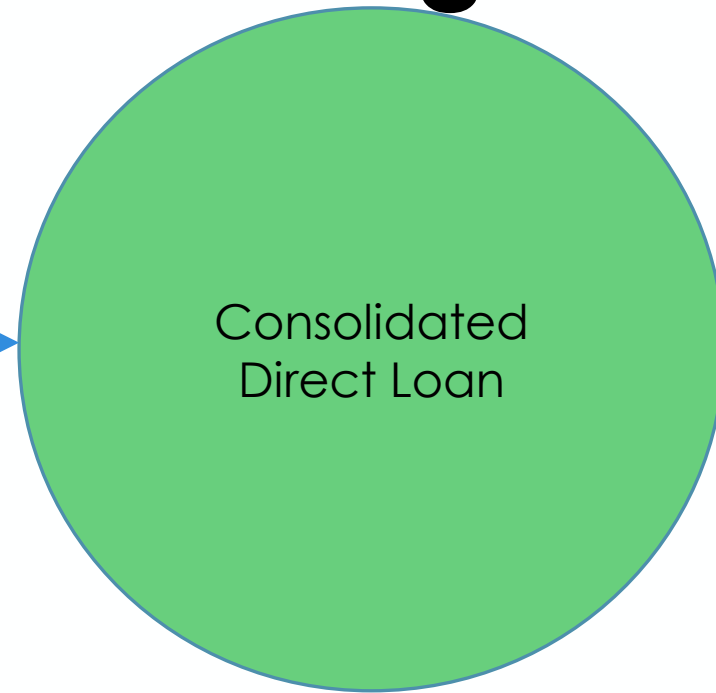
- *Benefits in the private system
- *Save on interest
- *Lose access to PSLF and income-driven repayment plans

Consolidating

Non-PSLF Eligible

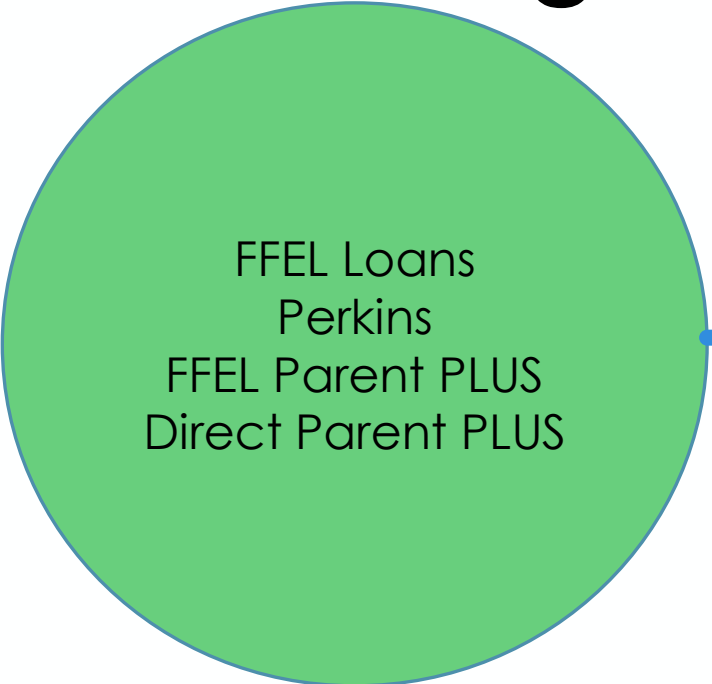


PSLF Eligible

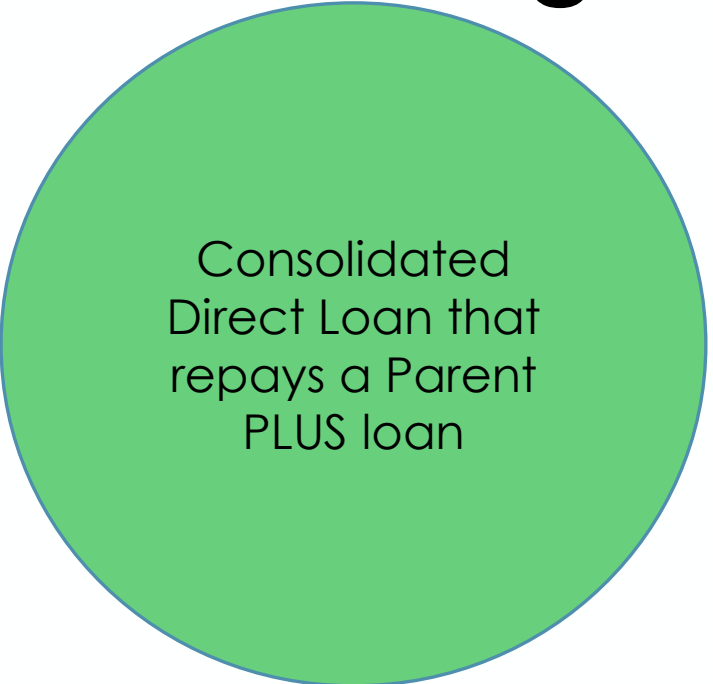


Consolidating

Non-PSLF Eligible

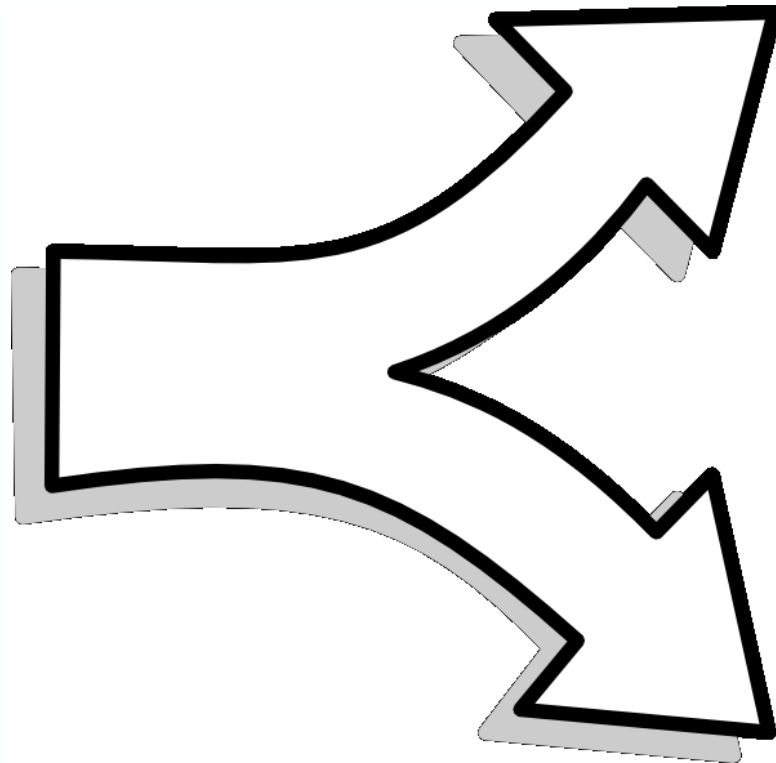


Non-PSLF Eligible



How do you make the choice?

**Changing
federal
loans**



Consolidating

*Strategic choice to make loans balance eligible for PSLF or other federal benefits

Refinancing

*Depends on risk tolerance, career path, and, in particular, other financial goals

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Public Service Loan Forgiveness

If a borrower makes 120 on-time payments on the (1) right type of loan while (2) enrolled in the right type of plan while (3) working at the right type of job, the borrower can get the balance of their loans forgiven

1. Right Type of Loan

- Must be Federal Direct Loans
- Not Perkins loans
- Not FFEL Loans
- Not Parent PLUS loans (or a consolidated loan that repays a Parent PLUS loan)

2. Right Type of Repayment Plan

- Right type of repayment plan
 - Income-driven plan such as IBR, PAYE or REPAYE
 - 10-year standard repayment plan does count
 - Congress recently passed Temporary Extended PSLF for borrowers paying on other types of payment plans. It is a limited pool on a first come first serve basis

3. Right Type of Employment

- Government organizations at any level (federal, state, local, or tribal)
- Not-for-profit organizations that are tax-exempt under Section 501 (c)(3) of the Internal Revenue Code
- Other types of not-for-profit organizations that are not tax-exempt under Section 501 (c)(3) of the Internal Revenue Code, if their primary purpose is to provide certain types of qualifying public services

Forgiveness

- If borrowers meet all the requirements and make 120 on time payments, the remainder of their balance will be forgiven tax-free.

Public Service Loan Forgiveness

If Susie is in a 5 year residency at a non-profit hospital during which she is paid only \$60,000 and then she begins earning \$250,000 as an attending, does it make sense for her to utilize the PSLF program?

Public Service Loan Forgiveness

Yes. If she pays the IDR minimum during both her residency and her attending years, she will still have more than \$200,000 forgiven, tax-free.

Questions?

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