

Managing Stafford Loans in Repayment



Today's presentation

- Stafford loan team
- life of a Stafford loan
- repayment plan options
- trouble making monthly payments?
- delinquency and default



Stafford Loan Team



Stafford loan team

- lender:
 - provides money for loan
 - owns loan
 - administers loan or hires servicer
- secondary market:
 - purchases loan from lender
 - becomes owner of loan
 - administers loan or hires servicer



Stafford loan team

- servicer:
 - administers loan for lender or secondary market
- guarantor:
 - insures repayment of loan
 - assists in default prevention
 - collects defaulted loan



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Stafford loan team

- federal government:
 - subsidizes loan
 - reinsures guarantor
 - collects “hard core” default loans



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Life of a Stafford Loan



Life of a Stafford loan

- in-school period
 - student:
 - must be enrolled at least half-time
 - not required to make payment
 - interest:
 - government pays on subsidized Stafford
 - accrues to student on unsubsidized Stafford



Life of a Stafford loan

- grace period
 - six consecutive months after student stops being enrolled at least half-time
 - student not required to make payment
 - interest:
 - government pays on subsidized Stafford
 - accrues to student on unsubsidized Stafford



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Life of a Stafford loan

- grace period
 - lender/servicer mails student information about repayment 60 days before repayment begins



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Life of a Stafford loan

- repayment period
 - generally 10 years
 - student required to make monthly payment
 - interest accrues to student on subsidized and unsubsidized Stafford
 - deferment, forbearance, consolidation available to student



Repayment Plan Options



Repayment plan options

- student may choose:
 - level (standard)
 - graduated
 - income-sensitive
 - extended
- student may change repayment plan annually



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Level (standard) plan

- payments the same throughout loan term
- works well for student who
 - takes well-paying job right out of school
 - can afford level payments from start
- automatically assigned if student does not choose another plan



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Graduated plan

- begin with lower payments
- payments increase every few years over 10-year repayment period
- works well for student who
 - takes lower-paying job after leaving school
 - can afford higher payments as time goes on



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Income-sensitive plan

- payments adjusted annually based on income and student loan debt
- works well for student who
 - expects salary or wages may vary from year to year
 - needs payments to go up and down with salary or wages



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Extended plan

- repayment period of 25 years
- available to
 - new borrowers on/after October 7, 1998
 - with student loan debt above \$30,000
- works well for student who
 - has large debt upon leaving school
 - needs more time repay



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Repayment plan comparison

Principal amount borrowed . . .

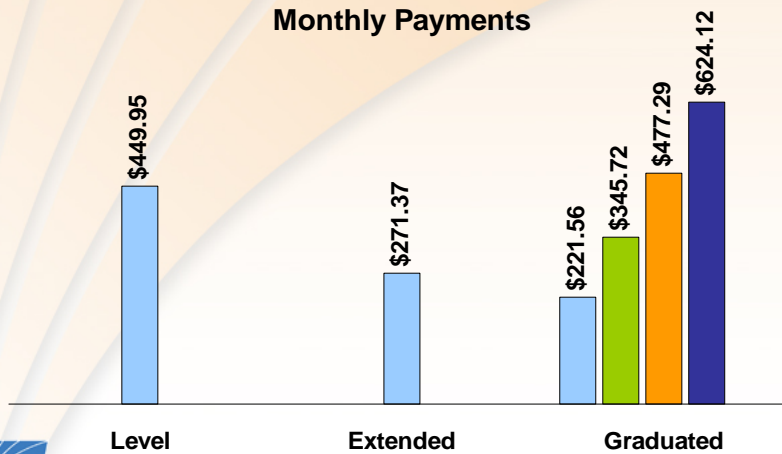
Subsidized Stafford	\$ 18,125.00
Unsubsidized Stafford	\$ 18,000.00
Total	\$ 36,125.00
Unsubsidized interest capitalized	\$ 2,973.90
Balance as repayment begins	\$ 39,098.90
Interest rate	6.8%



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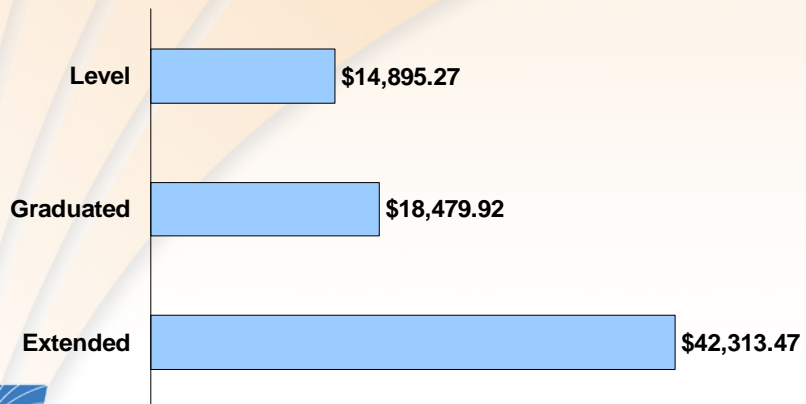
Repayment Plan Comparison

Monthly Payments



Repayment Plan Comparison

Interest Paid



Trouble Making Monthly Payments?



Options for avoiding trouble

- deferment
- forbearance
- change repayment plan
- consolidation



Deferment

- entitlement
 - cannot be denied if student qualifies
- temporarily postpones monthly repayment
- government pays interest on subsidized Stafford
- apply through lender/servicer



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Deferment reasons

- in-school:
 - attending school at least half-time
- unemployment (3 years):
 - employed less than 30 hours per week
 - actively seeking full-time employment



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Deferment reasons

- economic hardship (3 years):
 - on public assistance
 - below minimum wage or poverty line
 - monthly federal student loan payments equal to/larger than 20% of monthly income
 - Peace Corps volunteer



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Forbearance

- not entitlement
 - granted at lender/servicer discretion
- temporarily postpones or reduces monthly repayment
- government pays no interest on subsidized Stafford
- apply through lender/service



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Forbearance reasons

- borrower's poor health
- other reason acceptable to lender/servicer
- lender/servicer must have reason to believe borrower will eventually repay



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Change payment plan

- borrower:
 - may change plan annually
 - must be current in monthly payments
- apply through lender/servicer



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Consolidation

- merges all loans into one
- borrower:
 - must be in repayment or grace period
 - may not be in default
 - may “shop” for lender offering best deal
 - secures:
 - 10 - 30 year repayment period
 - fixed weighted average interest rate



Delinquency and Default



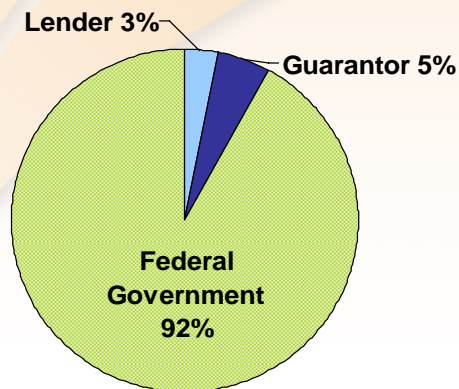
Delinquency

- begins when payment is late or missed
- student:
 - gets black mark on credit rating
 - may be delinquent 269 days
 - defaults after 270 days with no payments
- lender/servicer/guarantor
 - try to contact student to resolve delinquency



Consequences of default

Who Pays for Default



Consequences of default

- student
 - loses federal and state income tax refunds/
other federal or state payments
 - default assigned to aggressive collection
agency
 - charged collection, attorney, and court fees
 - loses professional license



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Consequences of default

- student
 - loses eligibility for future student aid
 - loses deferment/forbearance eligibility
 - interest rate may increase
 - default listed on credit report
 - wages garnished
 - may be sued



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Questions



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Review

- Stafford loan team
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- repayment plan options
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- delinquency and default



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For more information

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