Alumni Blog -April 2022

A Guide to Repayment & Loan Forgiveness

In today's climate it seems that it is inevitable that students will have to take on some form of debt for college. According to data, 43.4 million people have student loan debt and the number only continues to grow.

You may be one of those 43.4 million or you may be currently deciding about taking out loans for college. In any event, you will need to understand how student loans work. The impact that these could have on your future finances is very significant.

Special note before we go any further: The federal government pause on loan payments and interest on eligible students ends on September 1, 2022. *Learn more here.*

WHAT ARE STUDENT LOANS?

To overview quickly, student loans are a type of financial aid to help you afford college costs. These costs include things you will need to pay directly to your school such as tuition, room and meal plan, as well as other education related expenses like books and transportation.

Student loans can come from the federal government or a private lending institution. In exchange for the money, you must repay the full amount of the loan plus interest.

For this blog, we will be discussing the loans that come from the federal government. If another private institution or bank has loaned you money for school, you will need to contact them directly to get information about interest and repayment plans. **We strongly discourage you from taking private student loans** but if you must take them out, please do your research so that you know exactly what you are getting yourself into.

LOAN FORGIVENESS PROGRAMS

A big advantage of taking out federal student loans is the possibility of loan forgiveness. Depending on the situation, this may also be called loan "cancellation" or "discharge". This means that you will no longer be required to repay some or all of your student loans.

Here are some reasons your loans could be forgiven, canceled, or discharged:

Public Service Loan Forgiveness

This forgives the remaining balance of your loans after you have made 120 qualifying monthly payments under a repayment plan while working full-time for a U.S. federal, state, local or tribal government or not-for-profit organizations.

Teacher Loan Forgiveness

If you teach full time for five complete and consecutive academic years in a low-income school or educational service agency, and meet other qualifications, you may be eligible for forgiveness of up to $17,500 on your loans. See more information *here*.

Closed School Discharge

If your school closes while you're enrolled or soon after you withdraw, you may be eligible for discharge of your loans. This means your obligation to repay your loan is removed. There are certain eligibility requirements to qualify for a closed school loan discharge so it is important to obtain academic and financial aid records if your school closes, since you might need those if you plan to attend another school or want your loans discharged.

Total and Permanent Disability

This relieves you from having to repay a federal loan or to complete a TEACH Grant service obligation. In most cases, to qualify for this you must complete and submit a discharge application, along with documentation showing that you meet the requirements for being considered totally and permanently disabled. See more information *here*.

TYPES OF FEDERAL STUDENT LOANS

Currently, there are three types of student loans available from the federal government:

Direct Subsidized Loans

These are only available to undergraduate students who demonstrate significant financial need (as determined by the FAFSA). If you qualify for a subsidized loan, the federal government will pay the interest on your loan will you are in school and for the six-month grace period after you leave school. This is the ideal loan to take out as the final amount you have to repay will be lower.

Direct Unsubsidized Loans

These are available to undergraduate, graduate and professional students. You don't need to demonstrate financial need which makes these loans available to a wider range of undergraduates. Because they are unsubsidized, interest will grow on these loans while you are in school and during your grace period.

Direct PLUS Loans

Like the Unsubsidized, these are available to both graduate and undergraduate students. Parents of undergraduate students can also apply for these loans to help their children pay for college costs. While there is no financial need requirement for PLUS loans, you do have to pass a credit check to qualify. If you have bad credit history, then you may still be able to qualify if you meet certain additional requirements.

FEDERAL LOAN INTEREST RATES

The interest rates on federal student loans are fixed and low for the most part. For loans that were paid out on or after July 1, 2021, and before July 1, 2022, the interest rates are as follows:

- Direct Subsidized and Unsubsidized Loans to undergraduates- 3.73%
- Direct Unsubsidized Loans to graduate and professional students- 5.28%
- Direct PLUS loans- 6.28%

These rates are lower than those on private student loans or bank loans, making them the better option. But there are more than just the low interest rates that are appealing. Federal loans offer you a variety of legal protections to make repayment easier.

SIX- MONTH GRACE PERIOD

Direct Subsidized and Unsubsidized loans have a six-month grace period once you leave school. During this time, you aren't required to make payments. This can ease your financial situation while you find a job.

INCOME DRIVEN REPAYMENT PLANS

The U.S. Department of Education currently offers four income-driven repayment plans for federal student loans. These plans are a little similar but there are differences in how much you'll pay, how long you'll be in repayment, and the eligibility requirements you will need to meet.

Revised Pay As You Earn Repayment Plan (REPAYE Plan)

Monthly payment:

- Typically, 10% of your "discretionary" income.
- The U.S Department of Education defines "discretionary" income as the difference between your annual income and 150 percent of the poverty guideline for your family size and state of residence.

How long you will be in repayment:

- 20 years if all the loans you're repaying were for undergraduate study.
- 25 years if any of the loans you're repaying were for graduate or professional study.

Eligibility:

- Any borrower with federal loan types except for any PLUS loans made to parents.

Pay As You Earn Repayment Plan (PAYE Plan)

Monthly payment:

- Typically, 10% of your "discretionary" income, but never more than what you'd pay on the *10-Year Standard Repayment Plan.*
- For the PAYE plan, the U.S. Department of Education defines "discretionary" income as the difference between your annual income and 150 percent of the poverty guideline for your family size and state of residence.

How long you will be in repayment:

- 20 years

Eligibility:

- To qualify for this plan, your monthly payment needs to be less than the amount you'd pay under the 10- Year Standard Repayment Plan. This means you'll usually qualify if your federal student loan debt is higher than your annual discretionary income or represents a significant portion of your annual income.
- In addition to the payment requirements, you must be a "new borrower" to qualify for the PAYE plan. The U.S. Department of Education defines a "new borrower" as someone whose federal student loans were paid out on or after October 1, 2011.
- Any borrower with federal loan types except for any PLUS loans made to parents.

Income-Based Repayment Plan (IBR Plan)

Monthly payment:

- Typically, 10% of your discretionary income if you are a new borrower on or after July 1, 2014.
- Generally, 15% of your discretionary income if you are not a new borrower on or after July 1, 2014.
- To be considered a "new borrower" under the IBR plan, you must have received all of your federal student loans on or after July 1, 2014. If you had an outstanding balance on any federal student loan before that date, then you're not considered a new borrower.

How long you'll be in repayment:

- 20 years if you're a new borrower on or after July 1, 2014
- 25 years if you're not a new borrower on or after July 1, 2014

Eligibility:

- If your federal student loan debt is "higher than your annual discretionary income or represents a significant portion of your annual income", then you'll typically be eligible.
- Your monthly payment under IBR plan must not be higher than what it would be under the 10-Year Standard Repayment Plan.
- Any borrower with federal loan types except for any PLUS loans made to parents

Income-Contingent Repayment Plan (ICR Plan)

Monthly payment:

- The lesser of the following: 20% of your discretionary income OR what you would pay on a repayment plan with a fixed payment over 12 years, adjusted according to your income.
- For the ICR plan, the U.S. Department of Education defines discretionary income as "the difference between your annual income and 100% of the poverty guideline for your family size and state of residence".

How long you'll be in repayment:

- 25 years

Eligibility:

- Any borrower with federal loan types.

WHICH INCOME-DRIVEN REPAYMENT PLAN IS BEST?

If you're not sure which plan to choose, that's okay. It can be confusing. The best way to figure out which plan would be best is to use the *Federal Student Aid Loan Simulator*. This interactive tool will ask you questions about your income and life situation. Using this info, the simulator can offer you recommendations on which income-driven repayment plan to choose.

You also need to contact your student loan servicer immediately if you're struggling to make your current loan payments. They can give you specific guidance on how to ease up the burden.

ARE PRIVATE STUDENT LOANS ELIGIBLE FOR INCOME-DRIVEN REPAYMENT?

No. Only federal student loans are eligible for the income-driven repayment plans.

WHAT WILL MY MONTHLY PAYMENT BE ON INCOME-DRIVEN REPAYMENT?

This will depend on your income and family/household size. You will need to recertify your income and family size each year to remain in the income-driven repayment. If anything has changed, it could raise or lower your monthly payment. You can submit updated information sooner if your income or family size has changed significantly.

WILL MY LOANS BE FORGIVEN UNDER INCOME-DRIVEN REPAYMENT?

If you haven't finished repaying your federal student loans at the end of the income-driven repayment period, the government will forgive your remaining loan balance. However, you should be aware that you may have to pay federal income tax on the amount that was forgiven.

If you are struggling to repay your student loans, income-driven repayment can provide the relief you need. It's better to be honest with your loan servicer and ask for help than have your loans end up in default.

DEFERMENT OR FORBEARANCE

If you're experiencing life circumstances that make it difficult or impossible to repay your federal student loans, then you may be eligible for deferment or forbearance.

When your loan is in deferment, you temporarily postpone making payments. Possible reasons include:

- Cancer treatment
- Economic hardship
- Receiving a graduate fellowship
- Enrolling in an eligible college or career school
- Active military service

The other type of protection is forbearance. With forbearance, your payments will either be temporarily reduced or stopped completely.

Should I Apply For Income-Driven Repayment or Loan Deferment/Forbearance?

In general, it is better and easier to apply for income-driven repayment than the alternative. You won't have to complete as much paperwork, and the requirements tend to be less specific. Furthermore, the U.S. Department of Education strongly encourages you to apply for income-driven repayment before deferment or forbearance. Especially when you consider that your payments could be low as $0 per month under income-driven repayment. However, there may be situations where student loan deferment or forbearance may be a better option for you.

We hope that this has helped clear up a bit of confusion about what to do with those loans after school. While we hope that you don't have to take out loans, we also know that it is a reality of attending college for many nowadays. Just make sure to do your research and get signed up for an income-driven repayment plan.