

Advanced Student Loan Strategy

Heather Jarvis

- ### Today's Plan
- The Big Picture
 - Interest rates are a moving target
 - Consolidation then and now
 - Comparing repayment options
 - Income-driven repayment in depth
 - Advising married student loan borrowers
 - Public Service Loan Forgiveness
 - Eye on policy
 - Q&A

Tatiana works as a veterinarian with a salary of \$60,000 and gets 4% annual salary increases.

Income driven forgiveness is taxable as income!

Year	1	5	10	20	25	Total paid	Forgiven
10-year	1,174	1,174	1,174	0	0	140,881	0
							18,746 (tax)
							37,528 (tax)

Juan Carlos works as an Assistant District Attorney with a starting salary of \$40,000 and gets 4% annual salary increases.

PSLF is NOT taxable as income - wow

Year	1	5	10	Total paid	Forgiven
10-year	1,174	1,174	1,174	\$140,881	0

EVALUATING CONSOLIDATION

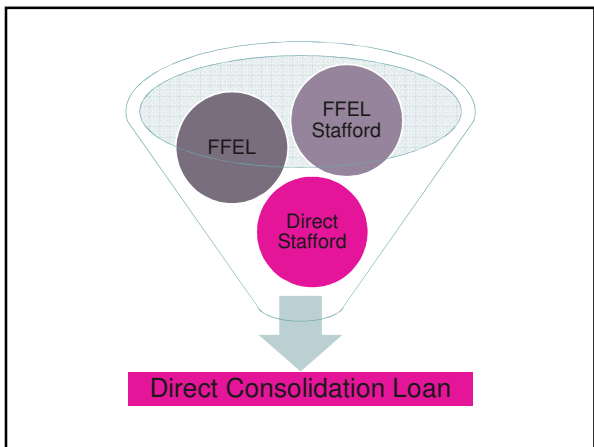
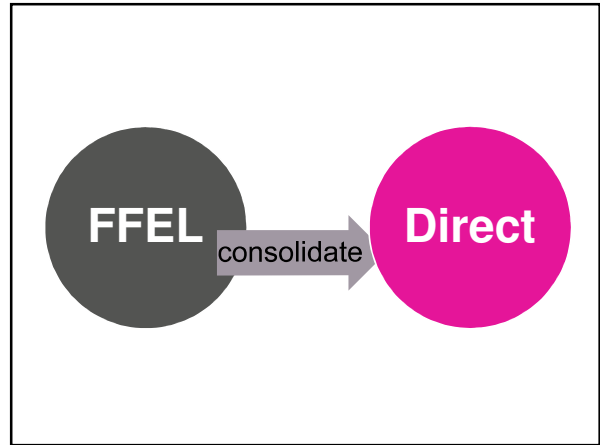
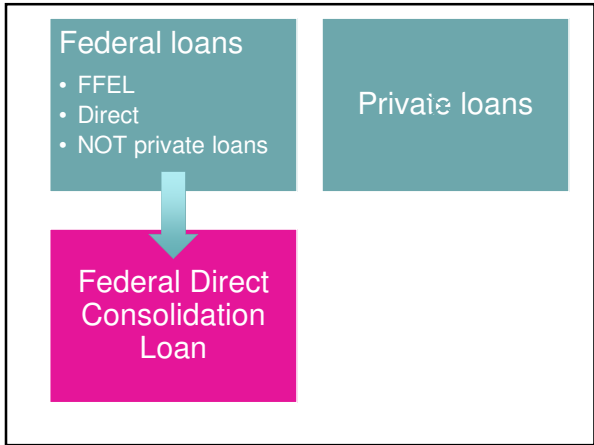
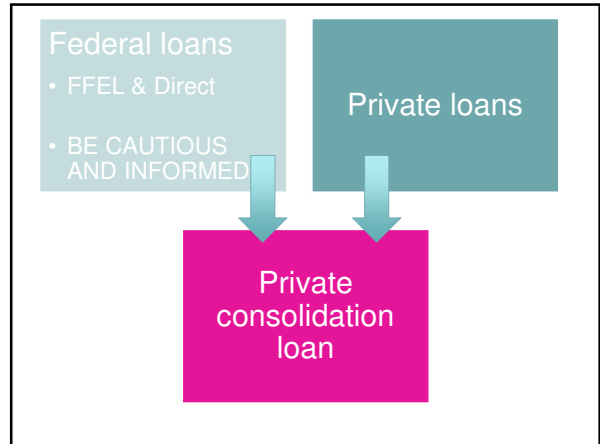
It a'int what it used ta be

- Today, there are two kinds of consolidation loans to consider
- Federal Direct Consolidation Loan

Private consolidation loan

Private consolidation loans with good terms are available for borrowers with good credit

- Some clients can improve loan terms
- But be aware of federal protections and flexible repayment provisions a borrower may give up IF he or she consolidates federal loans into a private consolidation loan



INTEREST RATES

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- Before 2006, federal loans had variable interest rates
- Since 2006, new federal loans are at fixed interest rates set by Congress
- Beginning July 1, 2013, federal student loan interest rates are tied to the market
- Private student loan interest rates are based on creditworthiness and are nearly always more expensive

- Beginning July 1, 2013, rates are tied to the market:
 - Rates for subsidized and unsubsidized loans to undergraduate students are:
 - 10-year Treasury rate plus 2.05 percentage points (presently 3.86 percent), capped at 8.25 percent
 - Rates for unsubsidized loans to graduate students are:
 - 10-year Treasury rate plus 3.60 percentage points (presently 5.41 percent), capped at 9.50 percent
 - Rates for GradPLUS and Parent PLUS loans are:
 - 10-year Treasury rate plus 4.60 percentage points, (presently 6.41 percent) capped at 10.50 percent

- ### Federal Direct Consolidation Loan interest rates
- Fixed interest rates based on the weighted average of the underlying loans
 - Capped at 8.25 percent for consolidation loans borrowed before July 1, 2013
 - For loans borrowed on or after July 1, 2013, there is no cap

- ### Yesterday's reasons to consolidate federal student loans
- To access lower monthly payments through longer repayment periods

But consolidating isn't the best way to lower payments anymore
 - To group loans together with one lender or loan servicer

But the "split servicing" problem is mostly solved at this point
 - To lock in a fixed interest rate on loans issued at variable rates

But variable rate loans haven't been issued since 2006.

- ### Today's reasons to consolidate federal student loans
- To lock in a low fixed interest rate (but that only applies to people who haven't already consolidated old loans)

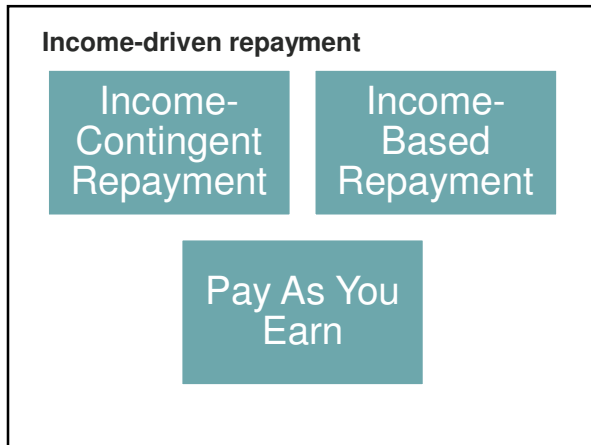
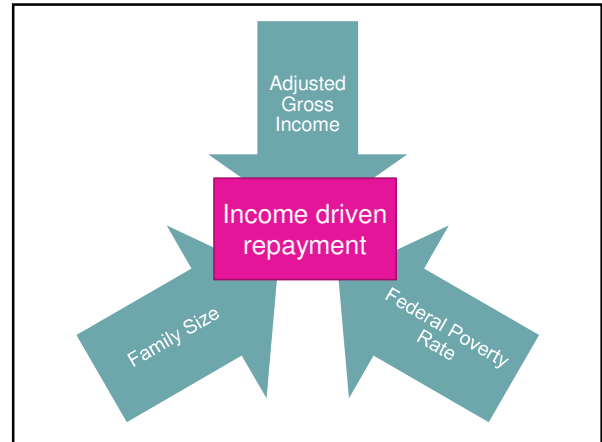
If he or she has pre-2006 variable interest rate federal loans (either FFEL or Direct)
 - To access more specific repayment or forgiveness provisions (if he or she qualifies for them)

If he or she has pre-2010 FFEL loans

Federal Student Loans

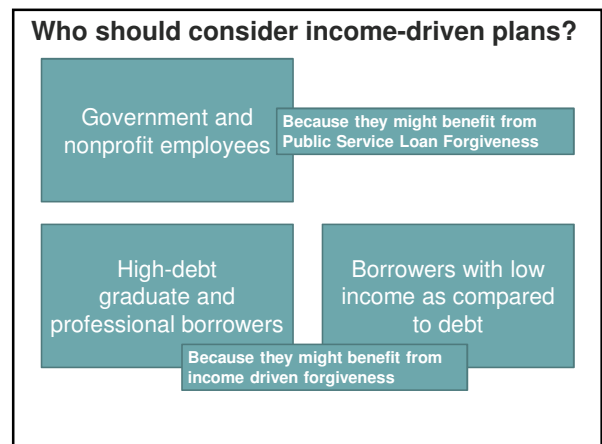
COMPARING REPAYMENT OPTIONS

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Income-Contingent Repayment	<ul style="list-style-type: none"> • 20 percent of discretionary income, or what borrower would pay on a fixed payment over the course of 12 years, adjusted according to income • 25 year forgiveness • PSLF eligible • Interest capitalization cap
Income-Based Repayment (for those who are not new borrowers* on or after July 1, 2014)	<ul style="list-style-type: none"> • 15 percent of discretionary income, but never more than the 10-year Standard Repayment Plan amount • 25 year forgiveness • PSLF eligible • No interest capitalization cap
Pay As You Earn (for new borrowers on Oct 1, 2007 and borrowed on or after Oct 1, 2011)	<ul style="list-style-type: none"> • 10 percent of discretionary income, but never more than the 10-year Standard Repayment Plan amount • 20 year forgiveness • PSLF eligible • Interest capitalization cap
Income-Based Repayment (for new borrowers* on or after July 1, 2014)	<ul style="list-style-type: none"> • 10 percent of discretionary income, capped at the 10-year Standard Repayment Plan amount • 20 year forgiveness • PSLF eligible • No interest capitalization cap


- ### Income-driven repayment advantages
- Affordable monthly payments
 - Two possible paths to forgiveness:
 - Possibility of forgiveness that is NOT tied to employment
 - Occurs after **making payments based on income for 20-25 years** (depending on the income driven repayment plan) IF a balance still remains at that point
 - Possibility of forgiveness that IS tied to employment (Public Service Loan Forgiveness)
 - Occurs after making 120 QUALIFYING payments over at least 10 years IF balance still remains at that point
 - Interest subsidy and capitalization rules



- Negative amortization means lots of interest adds up
- Payments are based on income reported on tax returns so married people must sometimes trade off tax benefits for student loan benefits
- Possibility of substantial tax liability upon forgiveness
- Paperwork like you've never seen

Married student loan borrowers must choose:

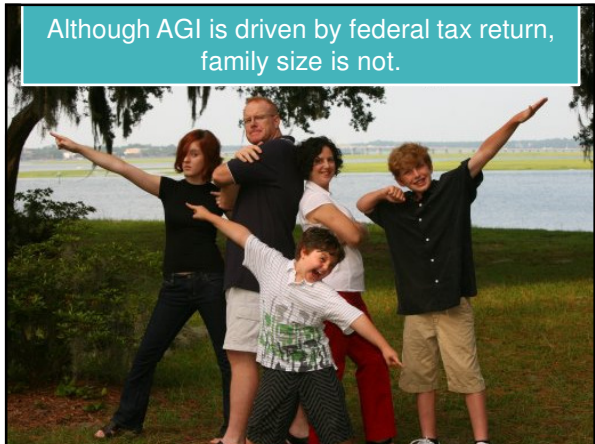
- File taxes jointly and have monthly payment based on joint AGI and combined student debt, *or*
- File taxes separately and have monthly payment based on individual AGI and individual student debt



- Rachel and James Gomez
- James earns \$45,000 as a police officer.
 - His wife Rachel earns \$60,000 as a lawyer.
 - Rachel and James have no children.
 - James owes \$25,000 on his eligible federal student loans
 - Rachel owes \$75,000 on her loans (She owes 75 percent of the total marital student loan debt).

Tax Filing Status	Adjusted Gross Income		Annual Tax Due		Combined Annual Tax Due
Jointly	\$102,500		\$14,439		\$14,439
Separately	Hers: \$60,000	His: \$45,000	Hers: \$9,401	His: \$5,660	\$15,061
Difference					Filing jointly saves \$622 on this year's tax payment.

Tax Filing Status	Monthly IBR Payment		Combined Monthly IBR Payment	Combined Annual IBR Payment
Jointly	Hers: \$743 (75% of total)	His: \$248 (25% of total)	\$991	\$11,892
Separately	Hers: \$459	His: \$272	\$731	\$8,772
Difference			Filing jointly requires \$260 more monthly in student loan payments	Filing jointly requires \$3,120 more annually in student loan payments




Loan Repayment Assistance Programs and Loan Forgiveness

School-Based LRAPs	State-Based LRAPs	Employer LRAPs
Public Service Loan Forgiveness	Profession specific programs	Income-driven repayment plan forgiveness

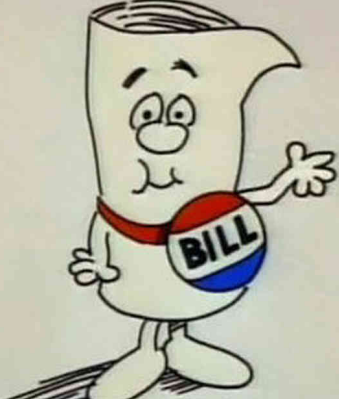
Public Service Loan Forgiveness is earned by making payments

120
“qualifying”
payments

1. Make the right kind of payments,
2. on the right kind of loans,
3. while working in the right kind of job.
4. Repeat 120 times.
5. Prove it.



What's up with Congress and the Administration?



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Questions?

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