Loan Exit Counseling & Money Management

Wesleyan University
May 2017
Important Things to Know

• Understand your student loan portfolio
  • Know what types of loans you have
  • Know what your loan terms are: interest rate & grace period
  • Know your lenders and servicers
  • Know how much you owe
  • Know what your total monthly payments will be
  • 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
Types of Loans

• Federal Direct Subsidized Loan
• Federal Direct Unsubsidized Loan
• Perkins Loan
• Wesleyan Loan
• Private Loans

• Federal Direct PLUS loans are Parent loans
# Loan Interest Rates and Grace Periods

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>2013-14</th>
<th>2014-15</th>
<th>2015-16</th>
<th>2016-17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Direct</td>
<td>3.86%</td>
<td>4.66%</td>
<td>4.29%</td>
<td>3.76%</td>
</tr>
<tr>
<td>Federal Perkins</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Wesleyan</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
<td>8%</td>
</tr>
<tr>
<td>Private</td>
<td>Varies - contact lender</td>
<td>Varies – contact lender</td>
<td>Varies – contact lender</td>
<td>Varies – contact lender</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Grace Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Direct</td>
<td>6 months</td>
</tr>
<tr>
<td>Federal Perkins</td>
<td>9 months</td>
</tr>
<tr>
<td>Wesleyan</td>
<td>6 months</td>
</tr>
<tr>
<td>Private</td>
<td>Varies – contact lender</td>
</tr>
</tbody>
</table>
Subsidized Loans

• *Definition*: Interest does not accrue during in-school, grace, and periods of qualified deferment

• *Types of subsidized loans at Wesleyan*
  • Federal Direct Subsidized Loan
  • Federal Perkins Loan
  • Wesleyan Loan
Unsubsidized Loans

- **Definition:** Interest begins to accrue at the time of disbursement

- **Types of unsubsidized loans at Wesleyan**
  - Federal Direct Unsubsidized Loan
  - Private/Alternative Loans
Capitalization of Interest

• *Definition*: Unpaid accrued interest on unsubsidized loans is added to the original amount borrowed (i.e. principal balance), thereby increasing your total indebtedness.

• Unsubsidized Direct Loan:
  • first capitalization typically occurs six months after borrower leaves school
  • borrowers receive quarterly interest statements
  • borrowers have the option to pay interest prior to capitalization
Grace Period

• Definition: Period of time after a borrower graduates, leaves school or fails to meet enrollment requirements
  • Payments may not be required during this period
  • No application required
  • Once used completely, it’s gone

• Unsubsidized federal loans continue to accrue interest during the grace period
• Taking advantage of a grace period does not adversely impact credit
Loan Servicers

• **Direct Loans** will be managed by one of several servicers
  • Current Servicers:
    • FedLoan Servicing (PHEAA): (800) 699-2908  [www.myfedloan.org](http://www.myfedloan.org)
    • Great Lakes Educational Loan Services, Inc.: (800) 236-4300  [www.mygreatlakes.org](http://www.mygreatlakes.org)
    • Navient: (800) 722-1300  [www.navient.com](http://www.navient.com)
    • Nelnet: (800) 486-4722  [www.nelnet.com](http://www.nelnet.com)
  • **Perkins Loans** – Heartland ECSI: (888) 549-3274  [www.heartlandecsi.com](http://www.heartlandecsi.com)
  • **Wesleyan Loans** – Heartland ECSI (888) 549-3274  [www.heartlandecsi.com](http://www.heartlandecsi.com)
  • **Private Loans** – Contact the lender for information

• Borrowers must be notified if the service provider of loan changes
• The terms of a federal loan, as specified in the promissory note, will not change if sold or transferred to another servicer
Forbearance & Deferment

• Forbearance: An arrangement to postpone or reduce a borrower’s monthly payment amount for a limited and specified period, or to extend the repayment period. The borrower is charged interest during forbearance.
  • Unpaid interest may be capitalized at the end of the forbearance depending upon the loan type and when the loan was disbursed.

• Deferment: the temporary postponement of loan payments. During deferment interest does not accrue on subsidized loans.

• Common types of deferments:
  • In-School
  • Economic Hardship
  • Unemployment
  • Military
  • Graduate Fellowship
Finding Your Federal and Private Student Loans

Federal Student Loans
National Student Loan Data System
www.nslds.ed.gov

Private Student Loans
(reported to the consumer reporting agencies)
www.annualcreditreport.com
Deliquency & Default

• Deliquency: Failure to make payment(s) on time.
  • Missing even one payment can make a loan delinquent
  • Reported to credit bureaus; affects borrowers history

• Default: Failure to repay a loan
  • Collection agencies may take over adding to the cost
  • Lender can take legal action
  • School can withhold records
  • Federal defaults could include wage garnishment & withholding of federal tax refunds
  • Student loans may not be discharged in bankruptcy
Repayment Options

FEDERAL DIRECT LOANS

• Standard: fixed amount for 10 years
• Extended: fixed amount extended over 12 to 25 years
• Graduated: 10 years to repay, however, the payment amount increases gradually over the life of the loan
• Income Contingent/Income Based/Pay As You Earn: monthly payment is based on the borrower’s adjusted gross income. Maximum repayment period is 20 yrs (PAYE)/25 yrs (ICR/IBR)
  • Public Service Loan Forgiveness
Repayment Options

• PERKINS LOANS/WESLEYAN LOANS
• Standard: fixed amount for 10 years

All educational loans can be prepaid without penalty
Public Service Loan Forgiveness

• Available for Federal Direct Loan borrowers
• Must make 120 on-time monthly payments during eligible public service employment
• Must make payments under Income-Based, PAYE, Income Contingent or any payment equivalent to the 10-year standard payment amount
• Must work full-time in eligible public service employment for ten years
• Parents who received a Direct PLUS Loan may qualify for forgiveness of the PLUS loan, if the parent borrower – not the student on whose behalf the loan was obtained – is employed by a public service organization
• Look for other loan forgiveness programs available but.....BEWARE OF SCAMS!!
# Tax Benefits

- **Student Loan Interest Deduction**
  - If eligible, will allow you to deduct loan interest on your federal taxes
  - The “Student” must be:
    - You, your spouse, or dependent; and
    - Enrolled at least half-time in a program leading to a degree, certificate, or other recognized educational credential at an eligible educational institution

<table>
<thead>
<tr>
<th></th>
<th>Full Deduction</th>
<th>Partial Deduction</th>
<th>No Deduction</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Single, Head of Household or Qualifying Widow(er)</strong></td>
<td>Modified Adjusted Gross Income is ( \leq ) $65,000</td>
<td>$60,001 to $79,999</td>
<td>$80,000 or more</td>
</tr>
<tr>
<td><strong>Married Filing jointly</strong></td>
<td>Modified Adjusted Gross Income is ( \leq ) $130,000</td>
<td>$130,001 to $159,999</td>
<td>$160,000 or more</td>
</tr>
</tbody>
</table>
Managing Personal Finances: Budgeting

What you don’t know can hurt you
Why Budget?

• Operating without a budget is like driving a car without a steering wheel...

  • A plan to meet your goals
  • Minimize anxiety of how to pay bills/expenses
The Planning Process

• Set Savings Goals / Turn your NEEDS into GOALS
• Long- term goals / Short- term goals
• A realistic goal is $MART (in more ways than one)
  • $pecific
  • Measurable
  • Adjustable
  • Relevant
  • Time-related
  • Flexible!
Building A Budget

• Money IN
  • Determine your income
  • Identify other sources of money

• Money OUT

• Estimate expenses by category
  • Savings
  • Housing
  • Food
  • Books/Supplies
  • Clothing
  • Phone
  • Entertainment
  • Transportation
  • Healthcare
  • Miscellaneous
Spending Plan Breakdown

- Must-Have Needs: 50%
- Wants: 30%
- Savings: 20%
Make a Spending Plan

Where does my money go?

• Create a spending plan
• Set priorities
• Practice good spending habits:
  • Look for sales
  • Use coupons
  • Buy store brands
  • Price compare
  • Don’t use credit cards for things you can’t afford

Consumer spending decisions are about 95% related to emotional needs.
Credit Card Caution

Credit Card  \textit{kred’-et kard\ n.}:

A powerful but dangerous tool

A means for buying something you don’t need, at a price you can’t afford, with money you don’t have.
Magic of the 4th degree

Needs vs. Wants / Ask yourself the following.

1) Do I really need it?

2) Do I have to have it today?

3) What will happen if I don’t buy it now? (for better or worse)

4) Why have I gotten along without it until now
Personal Budget Worksheet

• There are a variety of online budgeting calculators available to you!

Personal Credit and Credit Scoring

What you don’t know can hurt you
Good Credit vs. Poor Credit – What Can it Mean?

GOOD CREDIT

• Lower interest rates
• Could save hundreds, if not thousands, of dollars in interest costs
• Allows you to be more selective when choosing a lender
• Can mean preferred rate on car insurance

BAD CREDIT

• Higher interest rates
• Can result in loan applications being rejected
• Can get denied for basic services
• Can mean high cost premium on car insurance
Credit Basics

• Credit – Utilizing something now (e.g. education, car or home) and paying for it over a period of time.

• 3 C’s of Credit
  • Character – How well do you honor your financial obligations
  • Capacity – How easy will it be for you to repay the debt
  • Collateral – Will the loan be secured by something
What’s on the Credit Report?

• Personal Information
  • Names, current & previous addresses, employers, date of birth

• Credit Information
  • Credit granted and history & timeliness of repayment, revolving, installment or open ended, payment patterns for past 7 years

• Public Record Information
  • Records found on public documents: bankruptcies, collection accounts, overdue child support

• Inquiries
  • List of creditors and agencies who have requested your credit report
What Is Your Credit Score?

• Forecast of how well you will repay a loan as agreed during the next 24 months – the higher the score, the better the forecast that you will repay

• Snapshot of your credit history at a particular point in time

• Only includes factors related to an individual’s credit

• Always changing
Credit Score – FICO Ranges

• FICO Scores range – 300 to 850

• Only 18% of population have a FICO Score of 800 or better

• 7% of population have scores below 500
The FICO® score is a summary of the information on a consumer’s credit file. It is a 3-digit number ranging from 300-850®. Higher scores equate to lower future risk of default.
## Credit Impact: Rates and Payments

<table>
<thead>
<tr>
<th>Credit Score</th>
<th>APR</th>
<th>Monthly Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>720-850</td>
<td>3.35%</td>
<td>$731</td>
</tr>
<tr>
<td>690-719</td>
<td>4.77%</td>
<td>$747</td>
</tr>
<tr>
<td>660-689</td>
<td>6.82%</td>
<td>$770</td>
</tr>
<tr>
<td>620-659</td>
<td>10.41%</td>
<td>$812</td>
</tr>
<tr>
<td>590-619</td>
<td>15.63%</td>
<td>$874</td>
</tr>
<tr>
<td>500-589</td>
<td>17.02%</td>
<td>$892</td>
</tr>
<tr>
<td>&lt;500</td>
<td>Not eligible</td>
<td></td>
</tr>
</tbody>
</table>

Source: Myfico.com – 36 month car loan - $25,000
FICO Credit Score Factors

1. Payment History 35%
2. Outstanding Debt 30%
3. Credit History Length 15%
4. Pursuit of New Credit 10%
5. Credit Mix 10%
Credit Impact: Slow Payments

One 60 day delinquency can decrease a credit score by...

• 50
• 75
• 100 points
Costs increase for all future borrowing

• Auto loan - $100 - $200 extra per month

• Mortgage costs – extra $200 to $300 per month per $100,000 borrowed

• Insurance costs, credit card costs, other borrowing - $100’s extra per month
Who Reviews Your Credit?

- Employers
- Landlords
- Automotive dealers
- Professional licensing boards
- Insurance companies
- Financial lenders
- Others
National Credit Bureau Agencies

EQUIFAX: Phone: 800-685-1111
  Website: www.Equifax.com

Experian: Phone: 888-397-3742
  Website: www.Experian.com

TransUnion: Phone: 800-916-8800
  Website: www.TransUnion.com
Getting Your Credit Report

- [www.Annualcreditreport.com](http://www.Annualcreditreport.com)
  - Receive a free copy of report from each of 3 bureaus
    - order report every 4 months to monitor

- Must provide free if denied credit within 60 days

- Review for accuracy annually

- Dispute incorrect information

- [MYFICO.COM](http://MYFICO.COM)
Questions?

Wesleyan University
Financial Aid Office
finaid@wesleyan.edu
(860) 685-2800