

# How to Reduce or Cancel Federal Student Loan Payments: Use the New Federal Incentives & Flexible Payment Plans to Your Benefit

Student Legal Service

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University of Illinois at Urbana-Champaign



Alert – This Presentation is a Guide - NOT Legal Advice You Should Rely on Without Checking the Details of the Current Plans and Programs That May Apply To You

- You should always check the details of any payment plan, programs and other possible new changes in the law to determine how the information in this presentation applies to you.
- The Consumer Financial Protection Bureau (CFPB) provides additional information about Federal student loan payment.
- If you have a complaint about your loan service or problem, contact CFPB.



- If you increase the time you take to pay using a payment plan will likely result in you paying more interest. The payment calculator tool at [www.nslds.ed.gov](http://www.nslds.ed.gov) or [www.studentloans.gov](http://www.studentloans.gov) will help you evaluate this.
- You can make extra payments you specifically designate as payment on principal. This will allow you to reduce the total interest and payoff your loan sooner than only making the payments scheduled in your plan.
- Extra payments not designated as principal payments will be treated as early payment of scheduled payments. If you know you will be missing some payments, pay early, the entire payment.



# Step 1 – Initial Steps for Selecting Payment Plan and Programs you Might Use.

- Find out what type of loans you have and the amount of the loans
- Program eligibility for most programs depends on the type of loan
- Your payment(s) will be based on the total amount of the loans and the interest the loan carries.
- Generally, it is best to apply to consolidate loans into one loan with a blended interest rate so you only make one payment, apply for one deferment and only have to make one application to take other actions.



# Use These Websites to Find Out the Type and Amount of Your Federal Student Loans

- [www.nslds.ed.gov](http://www.nslds.ed.gov)
- [www.studentloans.gov](http://www.studentloans.gov)

These websites are also your gateway to specific information for payment plan options and the programs summarized here, your loan information and tools you can use to evaluate the impact of using repayment plans, consolidating loans and other program information.



# Step 2

## WHEN WILL YOUR REPAYMENT OF LOANS START?

Once you are no longer attending school at least half time, you have a 6 month grace period before your payments begin with most loans. Interest accrues during this time. If you did not have to pay interest when in school (Subsidized Loan), this interest will simply be treated as accrued interest but not included as additional principal.



# CHOICES TO MAKE DURING THE GRACE PERIOD:

- Determine the type and amounts of your loans – use [www.nslds.ed.gov](http://www.nslds.ed.gov) (obtain a PIN and you can find the details about your Federal loans) and [www.studentaid.ed.gov/repaying](http://www.studentaid.ed.gov/repaying) (find specific information and calculation tools to compare options)
- Decide to consolidate the loans, if possible. Contact your loan servicer to do this. You can find the loan servicer information at these websites.
- Select the payment plan and check to see if there is a program that may lead to a reduction in your payments if you work in certain fields or have certain loans. This information is summarized in this presentation.



# What to do if you cannot begin payments at end of the Grace Period

- If you cannot begin your payments at the end of the Grace Period, before the end of that period, apply for a deferral from your loan service provider. Reasons such as:
- Unemployed or inability to find full time work, or economic hardship is sufficient to obtain a deferment for up to 3 years.
- If you become temporarily or permanently disabled, you are eligible for a deferment. If it is a permanent disability, you can also seek cancellation of the remaining debt.





# What to Do If You Return to School at Least Half Time

- If you return to school at least half time, you will be eligible for deferment but you must apply to the loan servicer for the deferment. In the deferment application, you should indicate how long you anticipate you plan to attend school at least half time. They will usually grant you deferment for this period or automatically continue the deferment if you apply for loans each semester or for the Fall semester after a Summer Break without the need for another deferment application. If the deferment is not clear on the length, have this clarified.



# What If I Start Active Military Duty or Join the Peace Corp?

- While you are on Active Military Duty and for up to 13 months after you leave the Active Service, your payment will be deferred but you must apply for the deferment through your loan servicer.
- If you join the Peace Corp, you will be considered to have an economic hardship and can apply for a deferment for up to 3 years.



# I Still Cannot Afford My Loan Payments and No Longer Qualify for Deferment, What Can I DO?

- If you are still not able to make the full payments on your loans under any of the repayment plans and still have not found full time work sufficient to make these payments after your grace period and deferral periods, apply for Forbearance. An additional One Year Forbearance Period is available for economic hardship during which your payments may be reduced or eliminated.



# I AM Not Attending School But I Am Hired as an Intern or Resident in a Medical or Dental Field

- While you are serving as in an Intern or Resident program for a Medical or Dental field, you are entitled to mandatory forbearance. You must apply for this status through your loan service.



# What will happen if I fail to make a Student Loan Payment when required?

- If you fail to make a student loan payment when required, you will have to catch up with the payments; future payments will first apply to the amount still due and any late fees and charges.
- If you do not make payments when required for a period of 270 days, you will be declared in default.
- If you are in default, you will be subjected to collection proceedings, the full amount of all your loans comes due, the Federal government can apply any income tax refund to your loans until paid in addition to other collection remedies. You are subject to a lawsuit and a judgment being entered. Judgment interest in Illinois is 9% per annum and varies between each state. Additional court cost and attorney fees are added to the judgment.
- In order to pay off the judgment in full and begin restoring your credit, you will likely have to refinance your loans at a more competitive consumer loan rate.





## Step 3

# Select from the Federal Student Loan Repayment Plans



- **Use the Repayment Estimator to Determine which plan you want**
- **Go to [www.student.edu.gov](http://www.student.edu.gov) for repayment calculating**



# Consolidate your loans

- **If you have multiple federal student loans, you can consolidate them into a single Direct Consolidation Loan. This will simplify repayment instead of separate loan payments for different loans; you will only have one monthly payment to make. There may be tradeoffs, however, so you'll want to learn about the advantages and possible disadvantages of consolidation before you consolidate.**
- **Consolidation may eliminate eligibility for a loan forgiveness program for certain types of loans, e.g. Perkin Teacher Loans**





# Overview of Repayment Plans

## ■ A. Standard Repayment Plan

- **Payments are a fixed amount of at least \$50 per month.**
- **Up to 10 years**
- **Standard amortization schedule based on interest rate**



## ■ **B. Graduated Repayment Plan**

- **Payments are lower at first and then increase, usually every two years.**
- **Up to 10 years.**
- **(May be referred to as a back-loaded plan.) Overall, the amount of interest you pay may be a little more than under a Standard Plan. The payment calculator tool at the website will compare for you.**



## ■ **C. Extended Repayment Plan**

- **Payments maybe fixed or graduated.**
- **Up to 25 years.**
- **You will pay substantially more interest if you take the full 25 years to pay. See details of this program for how to estimate payments and what factors will cause an increase. Expected full repayment of loan principal by the end of 25 years.**



- **D. Income-Based Repayment Plan(IBR)**
- **Your maximum monthly payments will be 15 percent of *discretionary income*, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence(other conditions apply).**
- **Your payments change as your income changes.**
- **You pay up to 25 years.**
- **If you still owe on the loans at the end of that period, the remaining balance is cancelled.**



## ■ **E. Pay As You Earn Repayment Plan**

- **Your maximum monthly payments will be 10 percent of discretionary income, the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence (other conditions apply).**
- **Your payments change as your income changes.**
- **Up to 20 years.**
- **If you still owe on the loans at the end of 20 years, the remaining balance is cancelled.**



- **F. Income- Sensitive Repayment Plan**
- **Your monthly payment is based on annual income.**
- **Your payments change as your income changes.**
- **Up to 10 years.**
- **You do pay the loans off in 10 years. If first years are reduced, substantial payments will be required later.**



- **G. Income-Contingent Repayment Plan**
- **Payments are calculated each year and are based on your adjusted gross income, family size, and the total amount of your Direct Loans.**
- **Your payments change as your income changes.**
- **Up to 25 years.**
- **If you still owe after this period, the remaining balance is cancelled.**



# Step 4 – Check for Whether You Are Eligible for a Program That Will Reduce or Cancel the Amount Owed

- Based on the type of loans you have, the date the loan was disbursed, and the amount, review the programs outlined here
- These programs eliminate all or part of the balance of your loans, regardless of your payment plan.





# I. Public Service Loan Forgiveness Program

- **Major benefit**
- If you use an alternate payment plan rather than the 10 year standard payment plan, the remaining balance will be forgiven after your first 120 payments if you work in public service for the 10 years you make the payments
- Since these payments will never be more than the standard payment, even though normally with a non-standard plan you would pay interest over a longer period of time without the cancellation of the loan, if you qualify for forgiveness with this program, you will save money.



# I. Public Service Loan Forgiveness Program

## A. Public Service Jobs that Qualify

- Government
- Non-profit, tax-exempt, organization under 501(c)(3)
- Private non-profit organizations excluding labor unions or partisan political organizations that provide one or more of the following public services:
  - Emergency management, Military Service, Public Safety, Law Enforcement, Public Interest Law Services, Early Childhood Education, Public Service for individuals with disabilities and the elderly, Public Health, Public Education, Public Library Services or other school-based services.



# I. Public Service Loan Forgiveness Program

## • B. Eligibility Requirement

- a. Must make 120 monthly payments on loans after Oct. 2007 while employed in public service.
- b. Loan must be an eligible Federal Loan
- (Most common Federal Student loans are eligible but special loan programs with special loan forgiveness plans are not generally eligible – list of major ones on upcoming slides)



# I. Public Service Loan Forgiveness Program

- Loans made under other federal student loan programs may remain for this program if they are consolidated into a **Direct Consolidated Loan**



## Loans that can be consolidated into the Direct Consolidated Loan are:

- Subsidized and Unsubsidized Stafford Loans
- Federal PLUS Loans – If Federal Parent PLUS loan, the parent must be employed in public service.
- Federal Perkins Loans
- Certain Health Professions
- Nursing Loans



# Public Service Loan Forgiveness Program

- **C. Employed in Public Service.**

- The 120 monthly payments must be made on the loans for which forgiveness is sought
- Each payment must be made for the full scheduled installment amount within 15 days of the due date
- No period of default during of the 10 years of payment are allowed.



# Public Service Loan Forgiveness Program

- Payments must meet the following requirements:
  - a. Must be employed full time by a public service organization at the following times
  - b. When making the 120 monthly payments before apply for forgiveness
  - c. At the time you apply for loan forgiveness
  - d. At the time the remaining balance on your eligible loans is forgiven (at the end of 120 payments)



# Public Service Loan Forgiveness Program

- **D. Payment Plans Eligible:**

- The 120 separate monthly payments can be made under one or more of these repayment plans:

- Income Based Repayment (IBR) Plan
- Income Contingent Repayment Plan
- Standard Repayment Plan with a 10 year repayment period
- Any other Direct Loan Program Repayment Plan





# Public Service Loan Forgiveness Program

- **E. Keep Track of Employment that counts as you accrue the benefit**
  - U.S. Dept. of Education created the Employment Certification for Public Service Loan Forgiveness form and a process to monitor your progress towards the 120 installment payments
  - This form allows the employer to certify employment while you are still working for that employer or shortly after leaving
  - You can and must make the full payment even if switching employer. Check to see if there is a gap in employment between one employer and another will have any impact. You definitely can switch employers.



# Teacher Loan Forgiveness Program

- **Major Benefit**

- If you teach full time for 5 complete and consecutive academic year in certain elementary or secondary schools or educational service agencies that serve low-income families and meet other qualifications, a portion of your loans will be forgiven.
- You may be eligible for forgiveness of up to a combined total of \$17,500 on Direct Subsidized and Unsubsidized Loans and your Subsidized and Unsubsidized Stafford Loans or a portion of this amount if you do not qualify for the full repayment benefit in 5 years.



# Teacher Loan Forgiveness Program

- **A. Eligibility**

- To be eligible you must have owed money or obtained a Direct Loan or Federal Family Education Loan (FFEL) after Oct. 1998



# Teacher Loan Forgiveness Program

- **B. The loans for which you are seeking forgiveness must have been made before the end of 5 academic years of qualifying teaching service used for forgiveness of the loans.**



# Teacher Loan Forgiveness Program

- **C. Time spent teaching through AmeriCorps cannot be counted toward your 5 complete consecutive academic years and one teaching year has to be completed after 1998**



# Teacher Loan Forgiveness Program

- **D. You must have been employed in an elementary or secondary school that**
  - Is in a School District that qualifies for funds under Title I of the elementary and Secondary Education Act of 1965
  - Has been selected by the U.S. Dept. of Education based on a determination that more than 30% of the school's total enrollment is made up of children who qualify for service provided under Title I



# Teacher Loan Forgiveness Program

- ▶ To find out if an elementary or secondary school is low-income check the U.S. Dept. of Education online database for the years you taught
- ▶ If your school meets the requirements for one of your 5 years, but not for subsequent years, the subsequent years of teaching at the school may be counted toward the required 5 years of service.



# Teacher Loan Forgiveness Program

## Complete Academic Year

- If you could not complete an academic year, it might still count if you completed 1/2 an academic year and the employer considers you to have fulfilled your contract for the academic year for remuneration purposes and you were unable to complete due to one of the stated conditions.
- Check <http://www.nslds.gov>. or <http://www.studentaid.ed.gov> for the answer to most questions.





# Teacher Perkins Loan Cancellation Program

- **Basic Benefit**

- If you have Teacher Perkins Loans, you can have a percent of the Teacher Perkins loans cancelled for each year you work in a qualified position up to 100% of the loan balance.
- You will not be reimbursed for loan payments made and you must first qualify for deferment of the Loan for these qualifying teaching services. Participating in this program is a reason for deferment but you must apply and be granted the deferment before you work will qualify.



# Teacher Perkins Loan Cancellation Program

- **Eligibility is based on duties not on job title.**
  - You must be directly employed by the school system.
  - You do not need to be certified or licensed to receive cancellation benefits.
  - You must teach full-time for a full academic year or equivalent as defined by your school
  - If working for a nonprofit school, must be providing elementary or secondary education as defined by state law.



# Teacher Perkins Loan Cancellation Program


- The amount cancelled is : 15% for each of the first two years (total 30%);
- 20% for the third and fourth year(total 40%)
- 30% cancelled for the fifth year
- Cancellation includes cancellation of interest that accrued that year.



# Perkins Loan Cancellation and discharge

- If you serve in any of these agencies or occupations, you should check with the loan servicer of your school to see about whether they allow cancellation of a percentage of a Perkins loan you received through the school:
  - Volunteer in the Peace Corp /Vista / any ACTION program
  - Member of the U.S. armed forces
  - Nurse or medical technician
  - Law enforcement /corrections officer
  - Head Start worker
  - Professional provider of early intervention services





This Presentation is based primarily on information available at the websites noted as of May 2014. Payment Plans and Programs and other options for repayment should be checked before you make any decision about your Individual Federal Student Loan Repayment Plan. These plans are often evaluated by Congress and subject to change.



# The End

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