

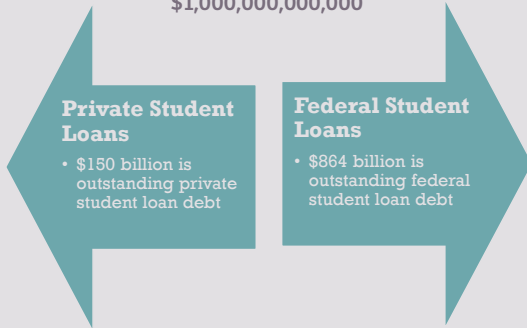
37 million Americans have student loans



A checklist approach

- Analyze your client's circumstances
- Identify the needs of your client
- Determine and explain your client's options
- Develop an appropriate strategy and establish next steps

1 trillion dollars in outstanding student loan debt:
\$1,000,000,000,000



A great plan starts with clear information

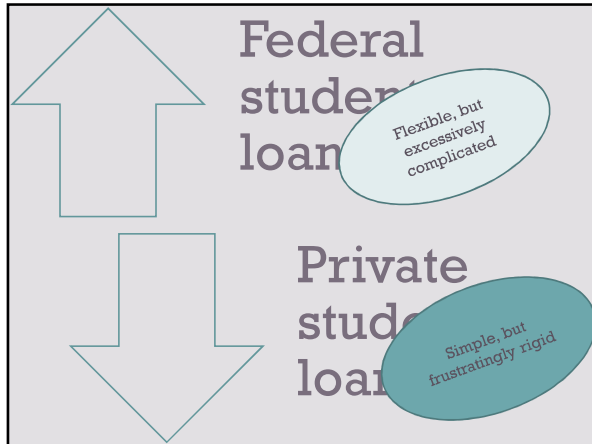
Repayment and forgiveness options depend upon the loan **TYPE**, the loan **STATUS** and the terms of the loan and characteristics of **the borrower**

Should my client:

- Refinance private student loans?
- Consolidate any federal loans? Why or why not? Which loans?
- Choose a repayment plan tied to his or her income?
- Choose the "married filing separately" tax status?
- Anticipate any taxable loan forgiveness?

Which loans are which

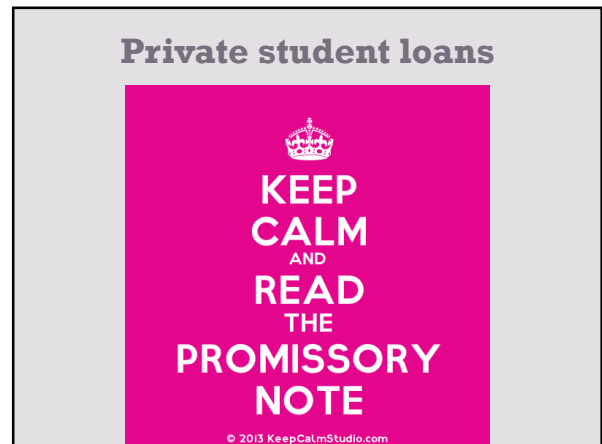
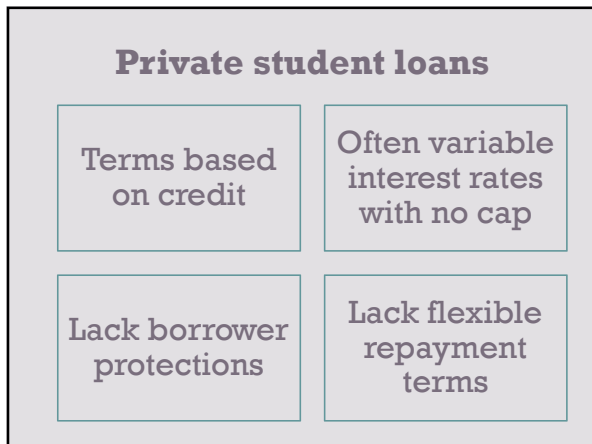
and why it matters



Commercial loans, private loans, alternative loans, school as lender, state loans

Where to find the information about your client's private student loans

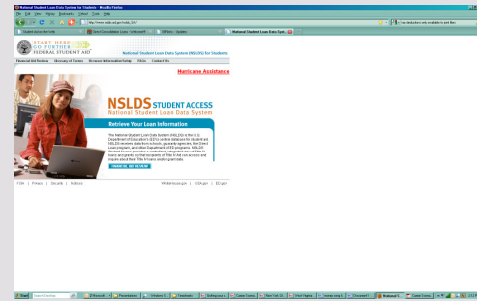
1. Credit report
2. Servicer records
3. Promissory note
4. Client interview



More to ask about your client's private student loans

- Is there a co-signer?
- Are you a co-signer?
- If yes, who is the primary obligor?
- Do you have copies of your loan agreements?
- If no, have you requested copies? If yes, describe:
- Do you have online accounts to view your account information?
- Were you at least 18 years old when you signed the loan documents?

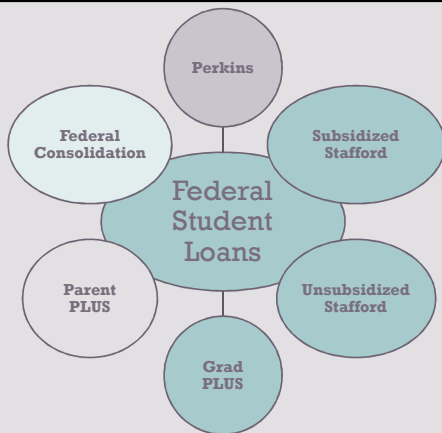
www.nslds.ed.gov



Federal student loans, government loans, guaranteed loans, Stafford loans

Federal

1. NSLDS
2. Servicer records
3. Heavily regulated



Type	Status	Terms
<ul style="list-style-type: none"> • Federal • FFEL or Direct • Subsidized, Unsubsidized, Perkins, Parent PLUS, Grad PLUS, Consolidation • Private 	<ul style="list-style-type: none"> • Deferment • Forbearance • Grace • Repayment • Delinquent • Default 	<ul style="list-style-type: none"> • Federal • Statutes, regulations, administrative guidance • Private • Promissory note • Collections rules

In every case, do these things:

1. Inventory the private loans

- Make a list from the credit report
- Get the Promissory Note

2. Inventory the federal loans

- Use the National Student Loan Data System (NSLDS)

Assume your client doesn't know

The Ultimate Student Loan Checklist

- Analyze your client's circumstances
 - Inventory the federal loans
 - Inventory the private loans
- Identify the needs of your client
 - Evaluating where his or her student loans fit into the bigger financial picture
 - Establishing an affordable monthly payment
 - Minimizing the total cost of debt over time
 - Restoring eligibility for federal student aid
 - Improving credit record
- Determine and explain your client's options
 - Discharge and cancellation
 - Consolidation
 - Repayment options
 - Curing default (if necessary)
 - Potential for forgiveness
 - Tax considerations
- Develop an appropriate strategy and establish next steps

These details matter:

"Type"	Federal or private <ul style="list-style-type: none"> • FFEL or Direct • Subsidized or Unsubsidized • Parent PLUS • Grad PLUS • Consolidation • Perkins, etc.
"Status"	Deferment, forbearance, grace, repayment, delinquent, default, etc.
Current Balance	\$
Balance upon entering repayment	\$
Disbursement date	Month, Day, Year
Current Interest Rate	% (Fixed or Variable)
Current Monthly payment	\$(Repayment Plan)
Servicer (and/or collector)	Online account interface
Lender	Might or might not be the same

What to ask your clients with federal student loans

- Are you a veteran?
- Are you disabled?
- Did you experience problems with the school(s) you attended?
 - If yes, did the school close while you were attending or around the time you attended?
 - Did you have a high school diploma or GED when you enrolled?
 - If no, were you given an admission test?
- Did you withdraw from school prior to completion?
 - If yes, did you receive a refund?
- Do you have reason to believe any of these loans are not your loans or that you did not sign for them?

	Federal	Private
"Type"	If it's on NSLDS, it's federal If and only if the LENDER is US Dept of Ed, it is a Direct loan	If it's on the credit report but <u>not</u> on NSLDS, it's private ➢ Get the promissory note
"Status"	NSLDS codes	Credit report, servicer records
Current Balance	NSLDS and servicer records	Credit report, servicer records
Balance upon entering repayment	NSLDS	Promissory note
Disbursement date	Month, Day, Year	Promissory note
Current Interest Rate	% (Fixed or Variable)	Servicer records, Promissory note
Current Monthly payment	\$(Repayment Plan)	Servicer records
Servicer (and/or collector)	Online account interface	Credit report, servicer records
Lender	Might or might not be the same	Credit report

What's up with interest rates?

Expect your clients to have a variety of interest rates ranging from super low to shockingly high

- 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

Capitalization of interest

ouch

- Rates for subsidized loans and unsubsidized loans to undergraduate students are:
 - 10-year Treasury rate plus 2.05 percentage points, capped at 8.25 percent.
- Rates for unsubsidized loans to graduate students are:
 - 10-year Treasury rate plus 3.60 percentage points, capped at 9.50 percent
- Rates for GradPLUS and Parent PLUS loans are:
 - 10-year Treasury rate plus 4.60 percentage points, capped at 10.50 percent

For a 2015 medical school graduate with \$180,000 in unsubsidized loans, interest accrued during school and grace will capitalize, increasing the balance to \$208,300.

\$1,100 in interest will accrue on this outstanding balance each month.

Simple daily interest

Interest rate times balance
divided by 365 equals daily
interest

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

Consolidating federal loans isn't about improving interest rates

Because the interest rate on a consolidation loan is the weighted average of the underlying loans

Today's reasons to consolidate federal student loans

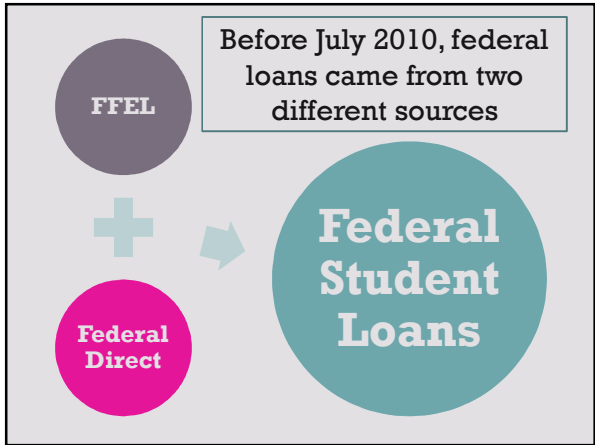
- To lock in a low fixed interest rate (but that only applies to people who haven't already consolidated old loans)

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

Evaluating consolidation

It a'int what it used to be

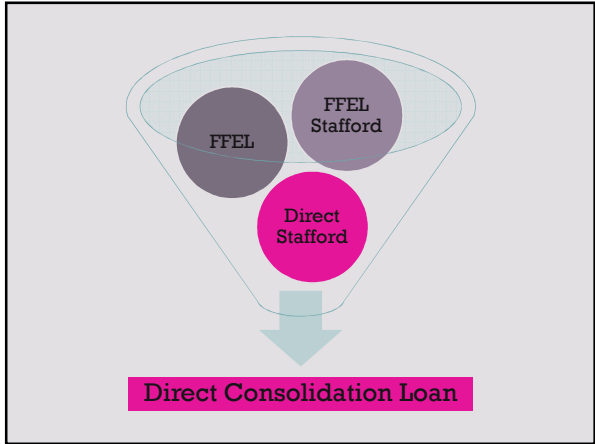


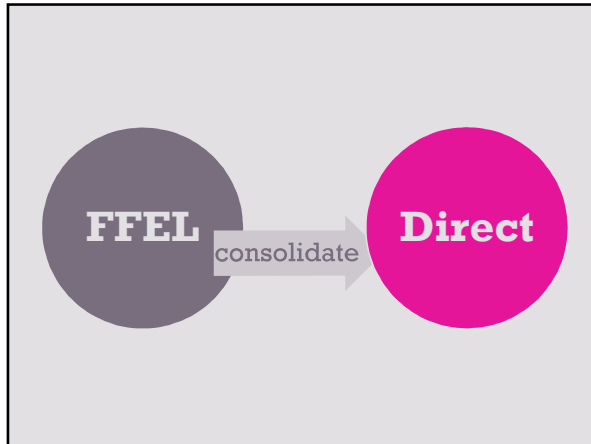
Yesterday's reasons to consolidate federal student loans

- 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



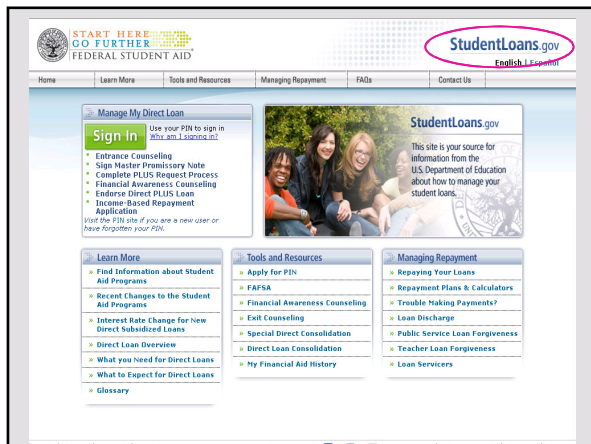


- Federal consolidation pros and cons**
- Group loans together with one lender
 - Access to a longer repayment period and lower monthly payments
 - Access to Public Service Loan Forgiveness
 - Access to Pay As You Earn
 - Perkins considerations
 - “Borrower Incentives”

If your client started borrowing after the summer of 2010

He has almost nothing to gain and something to lose by consolidating federal loans

- Reasons to consolidate**
- If she has pre-2006 variable interest rate federal loans
 - If he has pre-2010 FFEL federal loans and qualifies for PAYE
 - If he has pre-2010 FFEL federal loans and wants to earn Public Service Loan Forgiveness

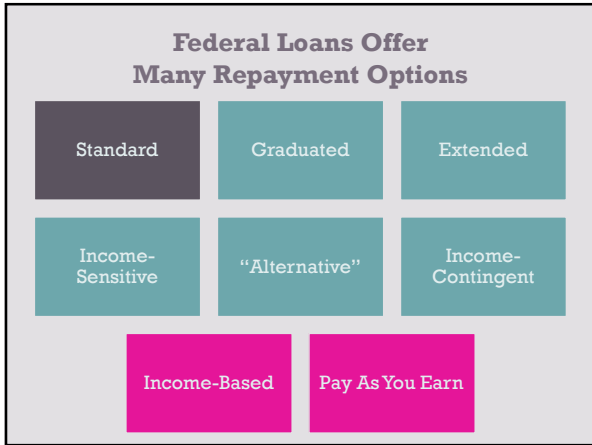
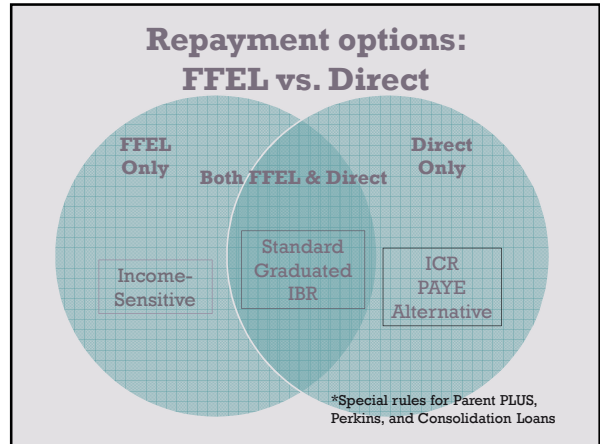


Private consolidation loans are available for people who have really good credit

But BEWARE of giving up important borrower protections and flexible repayment provisions that accompany federal student loans

Comparing repayment plans

Federal Student Loans



- ### So-called "Standard" Repayment Plan
- Equal fixed monthly payments
 - \$50 monthly minimum
 - 5-10 year repayment term
 - BUT 10-30 year "standard" repayment term for consolidation loans

Repayment options depend on the type, status, and terms of the loan AND sometimes debt-to-income ratio

Type of loan	Federal vs. private FFEL vs. Direct Consolidation, Parent PLUS, Perkins
Status of loan	Grace Deferment Delinquent Default
Additional factors	When loan was disbursed Amount of indebtedness Debt-to-income ratio

- ### Graduated Repayment Plan
- Payments start low(ish) and increase every two years
 - Minimum payment is accrued interest
 - 5-10 year repayment term
 - Or 10-30 year repayment term for Consolidation Loans

Length of repayment term for “standard” & graduated repayment plans

If the Total Education Indebtedness is		Maximum Number of Monthly Payments
At Least	Less Than	
	\$7,500	120 (10 years)
\$7,500	\$10,000	144 (12 years)
\$10,000	\$20,000	180 (15 years)
\$20,000	\$40,000	240 (20 years)
\$40,000	\$60,000	300 (25 years)
\$60,000		360 (30 years)

Monthly Payments

AGI	single		married with 2 kids	
	15% IBR	10% PAYE	15% IBR	10% PAYE
\$30,000	\$154	\$103	0	0
\$40,000	\$279	\$186	0	0
\$50,000	\$404	\$270	0	0
\$60,000	\$529	\$353	\$45	\$30
\$70,000	\$654	\$436	\$170	\$114
\$80,000	\$779	\$520	\$295	\$197
\$90,000	\$904	\$603	\$420	\$280
\$100,000	\$1,029	\$686	\$545	\$364

Extended Repayment Plan

No outstanding balance on a FFEL or Direct Program loan on or before October 7, 1998

Must have more than \$30,000 in outstanding FFEL or Direct Loans

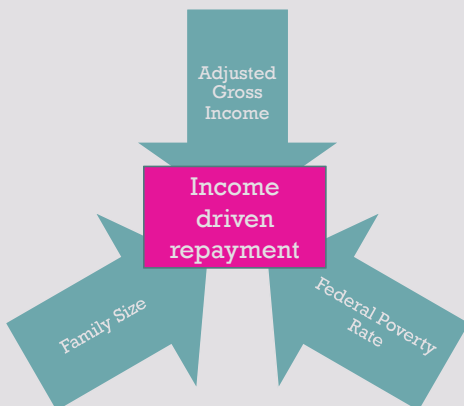
Choice of fixed or graduated monthly payments

Minimum payment of \$50 for Fixed Extended

Maximum repayment period is 25 years

It matters how your married clients file federal tax returns

The higher the Adjusted Gross Income, the higher the payments.



Partial Financial Hardship

Required debt to income ratio in order to qualify for an income-driven repayment plan

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



Monthly Payment During Residency	Repayment Plan after Residency	Repayment Years after Residency	Estimated Monthly Payment after Residency	Interest Cost	Total Repayment
\$0	Standard	10	\$2,800	\$165,000	\$335,000
\$0	Extended	25	\$1,700	\$335,000	\$505,000
\$0	Graduated	10	\$1,400 for 2-years then \$3,300 for 8-years	\$178,000	\$348,000
\$0	Income-Contingent Repayment (ICR)	7.5	\$3,200 to \$3,700 over 7.5-years	\$142,000	\$312,000
\$0	Income-Sensitive Repayment (ISR)	10	\$1,400 for 1-year then \$3,000 for 9-years	\$172,000	\$342,000
\$0	Income-Based Repayment (IBR)	11.3	\$2,400 to \$2,800 over 11.3-years	\$182,000	\$352,000
\$0	Pay As You Earn	19.2	\$1,600 to \$2,600 over 19.2-years	\$289,000	\$459,000

2013 - Association of American Medical Colleges.

A tale of two doctors

Dr. Tatiana Masters

- Tatiana borrows \$170,000 in subsidized Stafford loans during medical school.
- After her six-month grace period, **she chooses an income-driven repayment plan** during her four-year residency.
- Dr. Masters' post residency starting salary is \$180,000.

Dr. Juan Carlos Martinez

- Juan Carlos borrows \$170,000 in subsidized Stafford Loans during medical school.
- After his six-month grace period, **he chooses forbearance** during his four-year residency.
- Dr. Martinez's post-residency starting salary is \$180,000.

Source: AAMC

**To err is human;
to forgive, divine.**

Monthly Payment During Residency	Repayment Plan	Repayment Years after Residency	Estimated Monthly Payment after Residency	Interest Cost	Total Repayment
\$280 to \$360	Pay As You Earn during Residency then Standard	6	\$3,900	\$125,000	\$295,000
\$420 to \$540	IBR during Residency then Standard	6	\$3,800	\$124,000	\$294,000
\$280 to \$360	Pay As You Earn during Residency then Extended	21	\$1,700	\$276,000	\$446,000
\$420 to \$540	IBR during Residency then Extended	21	\$1,700	\$271,000	\$441,000
\$280 to \$360	Pay As You Earn during and after Residency	15.3	\$1,600 to \$2,200	\$194,000	\$364,000
\$420 to \$540	IBR during and after Residency	12.2	\$2,200	\$180,000	\$350,000

2013 - Association of American Medical Colleges.

If your client still has a balance after making income-driven payments for 20 or 25 years

The balance is forgiven but the forgiven amount is taxed as income

What about people who want to save the world?
 Even if it means forgoing income

Forgiveness is tied to repayment
Income-driven repayment plans are necessary for BOTH long-term, income-driven forgiveness and public service forgiveness



Who should consider choosing income-driven repayment

- Government and nonprofit employees *Because they might benefit from Public Service Loan Forgiveness*
- High-debt graduate and professional borrowers *Because they might benefit from income driven forgiveness*
- Borrowers with low income as compared to debt

Public Service Loan Forgiveness is earned by making payments

120
 “qualifying” payments

Tatiana works in private practice starting salary of \$60,000 and salary increase

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 in a government position with a starting salary of \$40,000 and gets 4% annual salary increase.

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

REPAYE – December 2015

- It doesn't matter when you got your loans.
- Monthly payments are 10 percent of "discretionary income".
- No Partial Financial Hardship is required.
- Eligible for Public Service Loan Forgiveness.
- If your payment does not fully cover interest charges, you will be charged only 50 percent of the unpaid interest.
- Your spouse's income will be included in calculating your monthly payment amounts, even if you file a separate federal tax return.
- There is no cap on the monthly payment.
- If you borrowed only for undergraduate education, forgiveness is after 20 years of repayment but if you borrowed any amount for graduate or professional education, forgiveness is after 25 years of repayment.

Income-Based Repayment
(for those who are not new borrowers* on or after July 1, 2014)

Pay As You Earn Plan
(for new borrowers on Oct 1, 2007 and borrowed on or after Oct 1, 2011)

Income-Based Repayment
(for new borrowers on or after July 1, 2014)

Rachel and James Gomez

- James earns \$45,000 as a police officer.
- His wife Rachel earns \$60,000 as a vet.
- 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).



Comparing how much **tax** they'll pay

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.

Comparing student loan payments				
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

- ### Checklist
- Analyze your client's circumstances
 - Inventory the federal loans
 - Inventory the private loans
 - Identify the needs of your client
 - Evaluating where his or her student loans fit into the bigger financial picture
 - Establishing an affordable monthly payment
 - Minimizing the total cost of debt over time
 - Restoring eligibility for federal student aid
 - Improving credit record
 - Determine and explain your client's options
 - Discharge and cancellation
 - Consolidation
 - Repayment options
 - Curing default (if necessary)
 - Potential for forgiveness
 - Tax considerations
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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

- ### Although AGI is driven by federal tax return, family size is not.
- This means that borrowers can count a spouse in your family size even if you choose to file separate tax returns.
 - According to federal regulations, family size is determined by counting:
 - The borrower
 - The spouse
 - Children if the children receive more than half their support from the borrower
 - Other individuals if they (1) live with the borrower and (2) receive more than half their support from the borrower and will continue to receive this support for the year the borrower certifies family size.
 - Support includes money, gifts, loans, housing, food, clothes, car, medical and dental care, and payment of college costs.

- ### Career related loan repayment assistance programs
- Perkins cancellation
 - Peace Corps
 - AmeriCorps
 - Teachers
 - Military
 - Medical
 - Legal

Teacher Loan Forgiveness Program

- No outstanding balance on a federal loan as of October 1, 1998
- Not in default
- Employed as a full-time teacher for five consecutive, complete academic years, at least one of which was after the 1997-1998 academic year
- In schools that serve low income families
- \$5,000 and \$17,500 limits

Perkins cancellation

- Full-time teacher in a designated elementary or secondary school serving students from low-income families
- Full-time teacher at any school of math, science, foreign languages, bilingual education, or other fields designated as teacher shortage areas
- Full-time special education teacher (includes teaching children with disabilities) in a public or other nonprofit elementary or secondary school
- Full-time qualified professional provider of early intervention services for the disabled
- Full-time employee of a public or nonprofit child- or family-services agency providing services to high-risk children and their families from low-income communities
- Full-time nurse or medical technician
- Full-time law enforcement or corrections officer
- Full-time staff member in the education component of a Head Start Program
- Vista or Peace Corps volunteer (up to 70%)
- Active duty service member in the U.S. Armed Forces (up to 50% in areas of hostilities or imminent danger)

Military specific provisions

- Perkins cancellation
- Limits on Interest Accrual
- Military Service Deferment
- Active Duty Student Deferment
- Extended grace, in-school deferments, and forbearance periods
- Rehabilitation and consolidation out of default requirements relaxed
- Waiver of some collection requirements
- Service Members Civil Relief Act

Public Service Loan Forgiveness is earned by making payments

120
“qualifying”
payments

Medical

- [National Health Service Corps Loan Repayment Program](#) for licensed primary care medical, dental, and mental and behavioral health providers who are employed or seeking employment at approved sites.
- [Students to Service Loan Repayment Program](#) for allopathic and osteopathic medical students in their fourth year at an accredited medical school.
- [State Loan Repayment Program](#) for primary care providers in participating States.

\$100,000 debt, \$54,000 AGI - increasing 3%, family size: 1

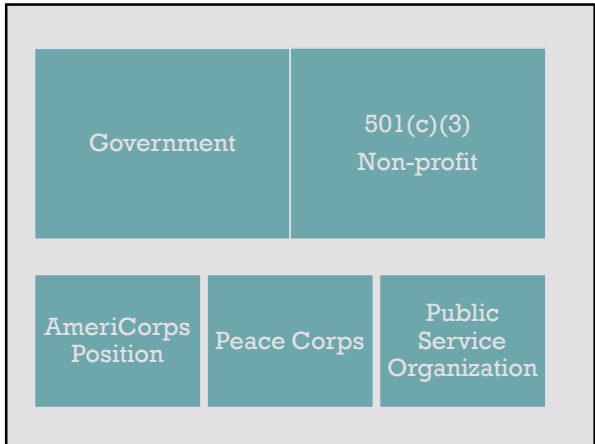
Without PSLF	IBR	Pay As You Earn
Time in Repayment	25 years	20 years
	\$209,362	\$102,257
	\$64,644	\$142,743
With PSLF	IBR	Pay As You Earn
Time in Repayment	10 years	10 years
	\$68,438	\$45,625
	\$107,812	\$129,375

Income driven forgiveness is taxable as income!

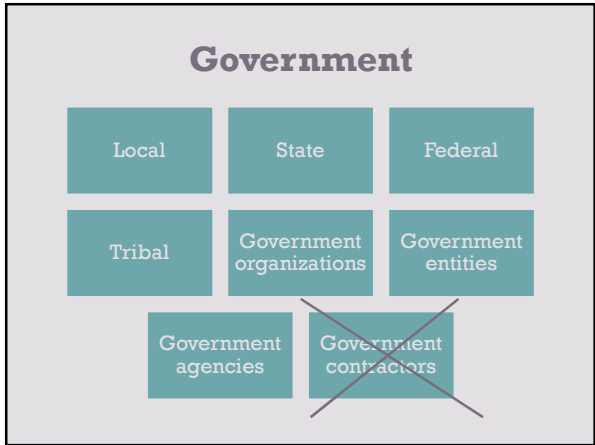
But PSLF is NOT taxable as income - wow

**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.**



**It matters WHERE your client
works**

And how many hours she puts in

Full-time

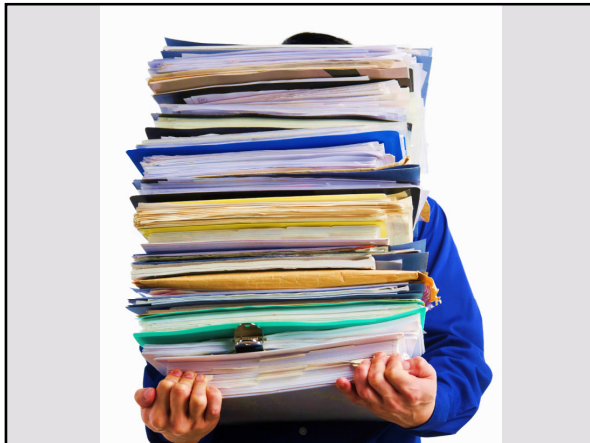
30 hours

It matters WHEN your client makes payments

**On time
once a month
over at least 10 years**

Recent Law Graduate

- Tatiana borrows \$100,000 to finance her legal education.
- She borrows \$61,500 in unsubsidized Stafford loans at a 6.8% interest rate.
- She also borrows \$38,500 in GradPLUS loans at a 7.9%.
- Imagine that following graduation, Tatiana works in private practice in a mid-sized law firm.
- Her starting salary is \$60,000 and she gets 4% annual salary increases.



\$100,000 starting balance (\$61,500 at 6.8% and \$38,500 at 7.9%)

Repayment Plan	Monthly Payment (Year One)	Years in Repayment	Total Payments
Standard 10-year term	\$1174	10	\$140,881
Consolidation 30-year term	\$682	30	\$245,583

The paperwork matters

verify income & family size annually

certify employment annually

Must be in qualifying employment when each of 120 payments are made, AND when applying for forgiveness, AND when forgiveness is granted **apply for forgiveness**

Tatiana in private employment

Repayment Plan	Monthly Payment (Year One)	Years in Repayment	Total Payments	
Standard 10-year term	\$1174	10	\$140,881	
Consolidation 30-year term	\$682	30	\$245,583	
Income-Based Repayment	\$466	25	\$209,362	\$64,644
Pay As You Earn	\$310	20	\$102,257	\$142,743

Taxable as income

AGI \$54,000; 3% annual increases; family size = 1

Tatiana in a Public Service Career

Repayment Plan	Monthly Payment (Year One)	Years in Repayment	Total Repayment	Total Taxable Income
Standard 10-year term	\$1174	10		
Consolidation 30-year term	\$682	30	\$245,583	\$107,812
Income-Based Repayment	\$466	10	\$68,438	\$129,375
Pay As You Earn	\$310	10	\$45,625	

AGI \$54,000; 3% annual increases; family size = 1

Student Loan Interest Deduction

- Lenders send a Form 1098-E, showing the interest paid.
- In addition to a \$2,500 cap, the amount of a student loan interest deduction is further limited according to income.
 - Currently, if total income is under \$60,000 (or \$120,000 for married people filing jointly), then the borrower can deduct the full \$2,500 in student loan interest.
 - If income is more than \$75,000 (or \$150,000 for married filing jointly), then student loan interest cannot be deducted at all.
 - If income is more than \$60,000 but less than \$75,000 (\$120,000 to \$150,000 for married filing jointly), then the deduction is prorated.
- Figure the deduction using the IRS Student Loan Interest Deduction Worksheet.

Tax Issues Facing Student Loan Borrowers

- How Adjusted Gross Income and tax filing status affect income driven student loan repayment plans.
- Special issues affecting borrowers in community property states.
- Student loan interest deduction.
- Taxation of loan repayment assistance benefits and loan forgiveness.

Taxation of loan forgiveness

- As a general rule, income from the cancellation of indebtedness is taxable as income;
- However, Section 108(f) of the Internal Revenue Code allows the forgiveness of certain student loans to be excluded from taxable income if the student loans are forgiven as a result of the borrower working for a certain period “in certain professions for any of a broad class of employers.”

Planning

- “Above the line” adjustments to income
 - Take the student loan deduction
 - Use health savings account from employer
 - Use section 129 employer dependent care assistance program
 - Take ordinary and necessary business expenses
 - Take capital losses up to \$3,000
 - Save for retirement
- Use 1040 not 1040A or 1040EZ

School-Based Loan Repayment Assistance Benefits Are Usually Not Taxable

- Most schools structure LRAP awards as forgivable loans, rather than as grants, to meet the requirements of Section 108(f) and permit LRAP recipients to avoid taxation of benefits.
- In 2008, the Internal Revenue Service published Revenue Ruling 2008-34, recognizing that a loan made under an LRAP generally satisfies the requirements of Section 108 of the Tax Code.

Public Service Loan Forgiveness Is Not Taxable As Income

- The U.S. Department of the Treasury and the Internal Revenue Service have issued an Information Letter confirming that Public Service Loan Forgiveness meets the requirements of Section 108(f) and is therefore not taxable income to the borrower.

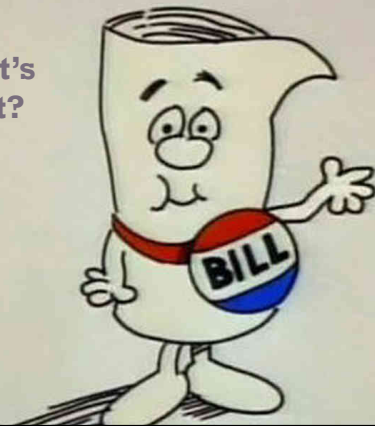
1. **Make the right kind of payments,**
2. **on the right kind of loans,**
3. **while working in the right kind of job.**
4. **Repeat 120 times.**
5. **Prove it.**



Employer Based Loan Repayment Assistance Benefits Are Nearly Always Taxable

- Some employers offer financial assistance with student loan payments as a benefit to staff.
- Loan Repayment Assistance Program (LRAP) benefits serve to increase Adjusted Gross Income and therefore increase your monthly student loan payments.

What's next?



Income-Driven Repayment Forgiveness Is Taxable As Income

- If a student loan borrower still has loan debt after 20-25 years of payments under an income-driven repayment option, the remaining principal and interest is discharged.
- The loan discharge is not contingent upon the borrower's work in a certain profession or class of employers, and so does not meet the standard set out in Section 108(f).
- For this reason, under current law the amount cancelled will be considered taxable as income to the borrower in the year in which it is received.

Proposals for change

- Federal budget process
 - *Proposals* include reducing or eliminating Public Service Loan Forgiveness for *new* borrowers
- Higher Education Reauthorization
 - Simplification?
- Negotiated rulemaking
 - “Expanding” Pay As You Earn