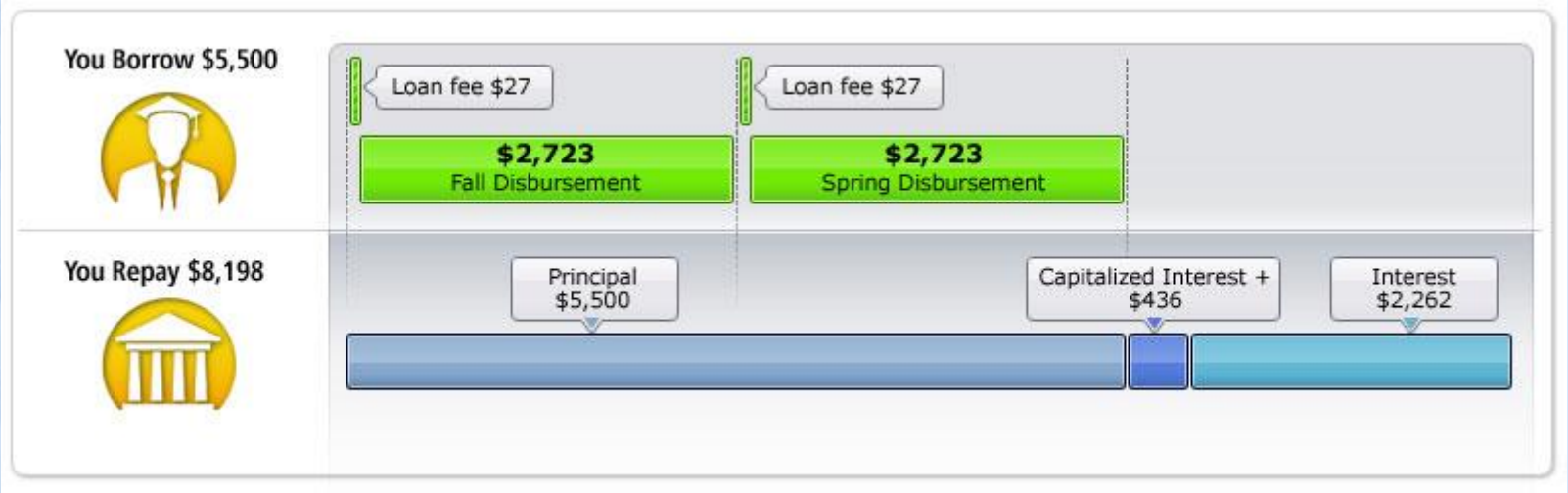
Financial Literacy Seminar

2020 Spring Quarter

Concordia Theological Seminary, Fort Wayne, IN

STUDENT LOAN REPAYMENT

Student Loan Basics



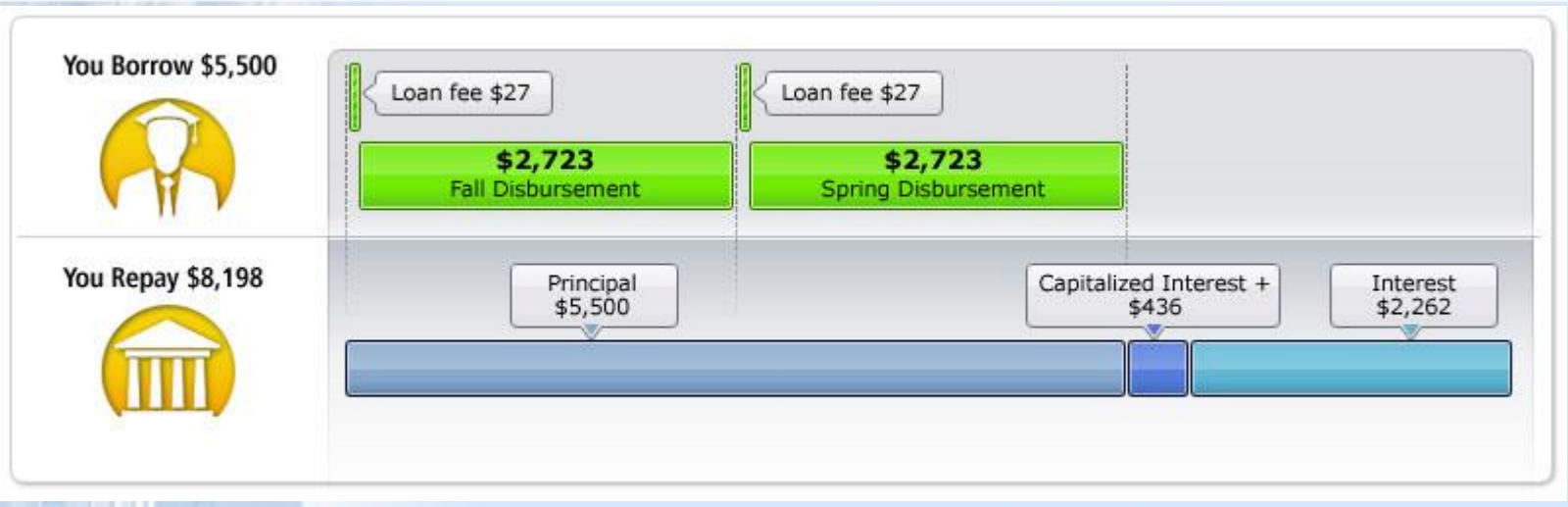
Example assuming a standard 10 year repayment plan

Disbursement - A portion of a loan that is paid out from the school to the borrower by applying the funds to the student's account at the school or paying the borrower directly. Loans are paid out in one or more disbursements usually in equal amounts.

Loan Fee - A charge that occurs each time money is disbursed (paid out) to the borrower. The loan fee is charged as a percentage of the disbursement (gross), and reduces the actual amount received (net). Direct Stafford Loans currently have a 1.059% origination fee. The Grad PLUS loan origination fee is 4.236%.

Principal - The gross loan amount plus any capitalized interest added to the loan.

Capitalized Interest - Unpaid interest that has been added to the principal balance of a loan. Future interest is charged on the increased principal balance.



Interest - The cost to borrow money. Interest is calculated as a percentage of the outstanding (unpaid) principal balance. The Direct Stafford Loan fixed interest rate is **6.08%** for loans with a first disbursement date after July 1, 2019 and before July 1, 2020 for unsubsidized loans; for Grad PLUS loans the fixed interest rate is **7.08%** for loans with a first disbursement date after July 1, 2019 and before July 1, 2020. Loan interest accrues daily.

Loan Servicer - A loan servicer is a company that handles the billing and other services on your federal student loan. The loan servicer will work with you on repayment plans and loan consolidation and will assist you with other tasks related to your federal student loan. It is important to maintain contact with your loan servicer. If your circumstances change at any time during your repayment period, your loan servicer will be able to help.

CONTACT YOUR LOAN SERVICER IF YOU HAVE PROBLEMS PAYING YOUR STUDENT LOANS. BEWARE OF DEBT COMPANIES THAT OFFER THEIR SERVICES FOR FEES THAT ARE FREE OF CHARGE TRHOUGH YOUR ASSIGNED LOAN SERVICER.

Repayment - To pay back money you borrowed by making scheduled payments to a loan servicer.

Repayment Period - The maximum time period over which you must repay your federal student loan. The repayment period may range from 10 years to 30 years, depending on loan amount, loan type, and repayment plan you choose.

Grace Period – a six-month period that begins on the day after you cease to be enrolled at least half-time status at an eligible school and ends on the day before repayment begins.

Forbearance – A period during which your monthly loan payments are temporarily suspended or reduced. You may qualify for forbearance if you are unable to make loan payments due to certain types of financial hardships.

Deferment – A postponement of loan repayments allowed under certain conditions.

- **Finance your education with free money first. You don't have to repay grants, scholarships, or work-study. Borrow only what you need.**

- **You have to pay back your student loans even if you do not complete your studies, withdraw from school, are unable to get a job after graduating, or are not satisfied with the educational services you received from your school.**

  - Borrow as a last resort and only borrow what you need. Money you don't borrow is money you don't have to pay back.
  - You don't have to borrow the maximum amount of federal student loans that you are eligible for each year; you can request a lower amount.
  - Create a budget each year to determine how much you will need to borrow
  - Pay off debt with a higher interest rates first

Student Loan Debt Burden

Student loan debt burden is the portion of a student's monthly income dedicated to their student loan payments.

The Consumer Financial Protection Bureau (CFPB) has the following categories for student loan debt burden:

- **Low Debt Burden**: Monthly payment is less than 8% of monthly gross income
- **Medium Debt Burden**: Monthly payment is between 8% and 14% of monthly gross income
- **High Debt Burden**: Monthly payment is greater than 14% of monthly gross income

If your monthly loan payments are greater than 14% of your monthly gross income, you could have trouble paying all your bills.

Annual Income	Monthly Gross Income	14% of Monthly Gross Income
$20,000	$1,667	$233
$25,000	$2,083	$292
$30,000	$2,500	$350
$35,000	$2,917	$408
$40,000	$3,333	$467
$45,000	$3,750	$525
$50,000	$4,167	$583
$60,000	$5,000	$700
$70,000	$5,833	$816
$80,000	$6,667	$933

Estimate Of What You Will Owe – Example #1

Projected Loan Balance at Graduation: **$40,000**
Interest Rate (fixed): 6.1 %

Traditional Payment Plans	Initial Monthly Payment	Total Payment Amount
Standard 10 years	$446	$53,483
Graduated 10 years	$255 - Payments start low, then increase every 2 years, up to $765	$57,103
Extended, Fixed 25 years	$260	$77,904
Extended, Graduated 25 years	$203 - Payments start low, then increase every 2 years up to $389	$84,721

Estimate Of What You Will Owe – Example #2

Projected Loan Balance at Graduation: **$60,000**

Interest Rate (fixed): 6.1%

Traditional Payment Plans	Initial Monthly Payment	Total Payment Amount
Standard 10 years	$669	$80,297
Graduated 10 years	$383 - Payments start low, then increase every 2 years, up to $1,149	$85,751
Extended, Fixed 25 years	$390	$117,077
Extended, Graduated 25 years	$305 - Payments start low, then increase every 2 years, up to $583	$127,309

Estimate Of What You Will Owe – Example #3

Projected Loan Balance: **$80,000**

Interest Rate (fixed): 6.1%

Traditional Payment Plans	Initial Monthly Payment	Total Payment Amount
Standard 10 years	$892	$107,062
Graduated 10 years	$511 - Payments start low, then increase every 2 years, up to $1,532	$114,335
Extended, Fixed 25 years	$520	$156,103
Extended, Graduated 25 years	$407 - Payments start low, then increase every 2 years, up to $778	$169,746

Loan consolidation can simplify loan repayment by centralizing your loans into one new loan which can lower monthly payments (interest rate is weighted average of all loans rounded up to nearest 1/8 of 1 %) by giving you up to 30 years to repay your new loan. You might also have access to alternative repayment plans you would not have had before, and you'll be able to switch your variable interest rate loans to a fixed interest rate.

Income-Driven Repayment (IDR) plans set your monthly payments at an amount that is based upon your income and family size. ***Each year you must "recertify" your income and family size.*** Private loans are not eligible. The U.S. Dept. of Education offers four different income-driven repayment plans:

1) REPAYE (Revised Pay As You Earn) – payment period is 20 years for undergraduate loans, 25 years if any loans are for graduate study. All borrowers with federal student loans are eligible.

2) PAYE (Pay As You Earn) – payment period is 20 years. Must qualify for plan with partial financial hardship.

3) IBR (Income-Based Repayment Plan) – payment period is 20 years if you are a new borrower on or after July 1, 2014, 25 years if you are not a new borrower on or after July 1, 2014. Must qualify for plan.

4) ICR (Income-Contingent Repayment Plan) – payment plan is 25 years. All borrowers with federal student loans are eligible.

Income-Driven Repayment Plan	Payment Amount
REPAYE Plan	Generally 10 percent of your discretionary income.
PAYE Plan	Generally 10 percent of your discretionary income, but never more than the 10-year Standard Repayment Plan amount.
IBR Plan	Generally 10 percent of your discretionary income if you're a new borrower on or after July 1, 2014, but never more than the 10-year Standard Repayment Plan amount. Generally 15 percent of your discretionary income if you're not a new borrower on or after July 1, 2014, but never more than the 10-year Standard Repayment Plan amount.
ICR Plan	The lesser of the following: a) 20 percent of your discretionary income or b) what you would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted according to your income

Advantages of Income Driven Repayment Plans

1) **Lower monthly payments**
2) **Loan forgiveness for any remaining balance that is not repaid at the end of the repayment period**
3) **Public Service Loan Forgiveness – no tax on forgiven amount – but you may not include the time you spend participating in religious instruction, worship services, or any form of proselytizing**

Disadvantages of Income Driven Repayment Plans

1) You may pay more interest—A reduced monthly payment generally means you'll be repaying your loan for a longer period of time, so you may pay more total interest over the life of the loan than you would under other repayment plans.
2) You must submit annual documentation—To set your payment amount each year, your loan servicer, the organization that handles billing and other services for your loan, needs updated information about your income and family size. You must provide the annual documentation **or** your monthly payment amount will be reset to the amount you would be required to pay under the Standard Repayment Plan.
3) You will have to pay taxes on the remaining amount that is forgiven. Under current law the IRS considers loan **amounts forgiven under an income-driven repayment plan to be taxable income (unless enrolled in PSLF)**.

Loan Comparison Example: based on $80,000 unsubsidized loans, family size of 4, household adjusted gross income of $40,000, residing in state of Indiana

Repayment Plan	Repayment Period	Monthly Payment Initial to Final Amounts	Projected Loan Forgiveness	Total Amount Paid
Standard	10 years	$892	$0	$107,062
Graduated	10 years	$511 to $1,532	$0	$114,335
Extended Fixed	25 years	$520	$0	$156,103
Extended Graduated	25 years	$407 to $778	$0	$169,746

Loan Comparison Example: based on $80,000 unsubsidized loans, family size of 4, household adjusted gross income of $40,000, residing in state of Indiana (Calculations include an annual 5% income increase and assumes your family size stays the same during the life of the loan)

Repayment Plan	Repayment Period	Monthly Payment Initial to Final Amounts	Projected Loan Forgiveness	Total Amount Paid
REPAYE	25 years	$11 to $507	$109,403	$60,905
PAYE	20 years	$11 to $338	$142,844	$34,756
IBR	25 years	$17 to $761	$110,643	$91,357
IBR for New Borrowers	20 years	$11 to $338	$142,844	$34,756
ICR	25 years	$238 to $877	$1,607	$183,464

- **When Do I Contact My Loan Servicer?**

Visit https://studentaid.gov/manage-loans/repayment **to see your loan servicer(s)**

You should contact your loan servicer when you:

- Graduate
- Change your name, address, or phone number
- Transfer schools
- Drop below half-time enrollment
- Leave school, or
- Need help making your monthly student loan payments

- **How Do I Change My Repayment Plan?**

Contact your loan servicer to select or change your repayment plan:

- Your servicer can advise which repayment plans are available to you.
- If you do not select a repayment plan, your servicer will place you on the standard repayment plan with fixed payments over a maximum of 10 years.
- You can change your repayment plan at any time.

You may prepay all or part of your federal student loan(s) at any time without a penalty.

After you have begun repaying your federal student loans, any extra amount you pay in addition to your regular required monthly payment will first satisfy any outstanding late charges and interest, and then reduce your outstanding principal balance. Paying down principal faster will reduce the amount of interest that accrues over time and therefore lower the total cost of your federal student loan. To ensure that you pay down your principal faster, be sure to instruct your loan servicer that any extra amount you pay is not intended to cover future payments.

Delinquency and Default

Did you know…?

Allowing your loan to go into default can instantly increase the amount you have to pay back due to the fees and penalties. Falling behind on your federal student loan payments can have major consequences:

- Your loan becomes **delinquent** the first day after you miss a payment.
- If a federal student loan is delinquent for more than 270 days, it goes into **default, which will have serious consequences for you.**

Contact your loan servicer **before you miss a payment** if you think you will have trouble making your payments, or if you won't be able to pay on time.

Being Delinquent or **Defaulting on a loan** may affect many areas of your life:

Student Loans	➢ You will lose eligibility for loan deferment, forbearance and choice of repayments plans. ➢ You will not be eligible for additional federal student aid. ➢ You may be required to immediately repay the entire unpaid amount of your loan. This is known as acceleration.
Future Income	➢ Your loans may be given to a collection agency and you will have to pay additional charges, late fees, and collection costs. ➢ You may have part of your income withheld by the federal government. This is known as wage garnishment. ➢ Your federal and state income tax refunds may be withheld and applied to your debt. This is known as a tax offset.
Credit Score	➢ Your Credit Score will be damaged. ➢ You may have difficulty qualifying for credit cards, car loans, or mortgages, and will be charged much higher interest rates. ➢ You may have difficulty signing up for utilities, getting car or home owner's insurance, or getting a cell phone plan. ➢ You may have difficulty getting approval to rent an apartment (credit checks may be required).

Loan Servicers (you may have one or more of these assigned to you)	**Contact** (call 1-800-433-3243 to learn who is your loan servicer)
CornerStone	1-800-663-1662
HESC/Edfinancial	1-855-337-6884
FedLoan Servicing (PHEAA)	1-800-699-2908
Granite State – GSMR	1-888-556-0022
Great Lakes Educational Loan Services, Inc.	1-800-236-4300
MOHELA	1-888-866-4352
Navient (formerly Sallie Mae)	1-800-722-1300
Nelnet	1-888-486-4722
OSLA Servicing	1-866-264-9762
ECSI	1-866-313-3797

Other resources:

Ministry Focus –The *MinistryFocus Fund for Pastors and professional Church workers* is an educational Loan Repayment Assistance Program (LRAP) specifically for pastors and other professional church workers in The Lutheran Church-Missouri Synod (LCMS) who are overburdened by educational debt. Individuals eligible for MinistryFocus LRAP grants must: 1) Currently serve as a rostered church worker of the Lutheran Church—Missouri Synod, 2) Carry at least $20,000 in educational loans.

For more details, see their website at http://ministryfocus.org

The Lutheran Federal Credit Union

If You answer Yes to one of these questions you are in!

I am a member of a congregation of The Lutheran Church-Missouri Synod
I am a Rostered Church Worker within The Lutheran Church-Missouri Synod
I am employee or volunteer of one of the following:
- Any congregation of The Lutheran Church-Missouri Synod
- Any District of The Lutheran Church-Missouri Synod
- Any synodical entity/agency of The Lutheran Church-Missouri Synod

I am a family member of one of the above members or employees
I am the parent or family member of a student that attends one of the LCMS congregation owned schools.

Education Loan Repayment Program For Rostered Church Workers

https://www.lutheranfcu.org/loans/rostered-church-worker-rcw-loans-2/

Student loan debt is a troublesome obligation faced by many church workers. A crushing debt may cause ministers to concentrate more on their financial needs and less on their call for serving their communities. The Education Loan Repayment Program provides a refinance opportunity for both private and federal student loans. It is important to note that unlike federal/government student loan programs, once federal student loans are consolidated through this loan program, they are no longer eligible for certain repayment options that are made available only for federally backed student loans.

***Loans up to $50,000 available to ordained or commissioned ministers within 5 years of graduation date**

***Ability to consolidate existing federal and private student loans only**

***Up to 10 year repayment terms**

***Annually adjustable interest rate of 4.25% (4.293% APR)**

***The online application takes less than 10 minutes to complete**

For assistance, please give LFCU a call at (314) 394-2790 or email loans@lutheranfcu.org.

Important Websites:

Website for Student Loan Information

Studentaid.gov – official website of the U.S. Dept. of Education for managing your student loans. Has information on:

- Entrance Counseling
- Master Promissory Note (MPN)
- Repayment Calculators
- Repayment Plans
- Income-Driven Repayment Plans
- Loan Consolidation
- Delinquency
- Default
- Loan Servicers
- **Exit Counseling** - which is *required of all borrowers before graduation* *(see MANAGE LOANS tab)*

Other Financial Literacy Websites

Concordia Plan Services - www.concordiaplans.org - serves LCMS members
AnnualCreditReport.com- website to get a free copy of your credit report every 12 months from each of 3 credit reporting companies to check on identity theft. Credit report is free, not your credit score.
360FinancialLiteracy.org - website for all stages of life sponsored by American Institute of CPAs.
EducationCents.org - website for students sponsored by Colorado Dept. of Education.
MappingYourFuture.org – website for students sponsored by a public-service, nonprofit organization.
Mint.com – website where all your financial accounts can be pulled in one place. Set a budget, track your goals and do more with your money, for free.
CashCourse.org - online personal finance tools to help you build real-life-ready financial skills sponsored by the National Endowment for Financial Education® (NEFE®).
CheapScholar.org - The purpose of CheapScholar.org is to provide families and students with the financial tools, resources, and knowledge that will assist in the pursuit of a college education.
Jumpstart.org - a coalition of organizations that share an interest in advancing financial literacy among students in pre-kindergarten through college.

COVID-19 Update

https://studentaid.gov/announcements-events/coronavirus

(please continue to check this website for any future developments)

Interest is being temporarily set at 0% on federal student loans. Which loans does the 0% rate apply to?

From March 13, 2020, through Sept. 30, 2020, the interest rate is 0% on the following types of federal student loans owned by ED:

- Defaulted and nondefaulted Direct Loans
- Defaulted and nondefaulted FFEL Program loans
- Federal Perkins Loans

Please note that some FFEL Program loans are owned by commercial lenders, and some Perkins Loans are owned by the institution you attended. These loans are not eligible for this benefit at this time.

I understand that my loans will be *automatically* placed in administrative forbearance, temporarily suspending my monthly payments. How long will the administrative forbearance last?

The administrative forbearance will last from March 13, 2020, through Sept. 30, 2020.

What if I want to continue making payments?

If you wish to continue paying your loans during the administrative forbearance period, or to pay more or less than your regular payment amount, you are free to do so. Contact your loan servicer or visit your servicer's website to make a payment or to find out how you can continue or start auto-debit payments. Continuing to make payments during the administrative forbearance could help you pay down your loan balance more quickly because the full amount of a payment will be applied to principal once all interest accrued prior to March 13, 2020, is paid.

If I make loan payments during the 0% interest period, how will they be applied?

During the period of 0% interest (March 13, 2020, through Sept. 30, 2020), the full amount of your payments will be applied to principal once all the interest that accrued prior to March 13 is paid.

How will I know when I will have to start making payments again?

The 0% interest period and administrative forbearance is currently set to expire on Sept. 30, 2020. Your servicer will contact you, no later than in August, to remind you that you will need to start making payments again. Make sure your contact information is up to date in your loan servicer account profile.

Thank you for attending!

Rev. Mark C. Sheafer

Concordia Theological Seminary

Fort Wayne, Indiana

Financial Aid Office