

Below is an overview of the federal repayment programs highlighted in GL Advisor's presentation. Visit www.glAdvisor.com to learn more.

INCOME-BASED REPAYMENT

Income-Based Repayment (IBR), a new program that became available on July 1, 2009, can significantly reduce monthly payments for high debt/lower income borrowers.

To be eligible for IBR, a borrower must first demonstrate that they have a Partial Financial Hardship (PFH). A borrower is considered to have a PFH when the annual amount due on all of their eligible loans exceeds 15% of the difference between the Adjusted Gross Income (AGI), as reported on their most recent federal income tax return, and 150% of the annual poverty line amount for their family size and state of residence. Once PFH is determined, payments will be calculated as outlined below.

- $PFH \text{ Payment Amount} = (.15(AGI - 1.5(\text{poverty line income})) / 12$
- If the PFH amount is less than \$5.00, then the monthly payment amount becomes \$0
- If the PFH amount is between \$5 and \$10, then the monthly payment amount becomes \$10

If a borrower's monthly payment does not cover the total interest accrued on their Subsidized Stafford loans, the government will pay the remaining interest for the first three years after IBR begins. After 25 years of qualifying monthly payments, any remaining balance on the applicable loans will be eligible for forgiveness. In 2014, program enhancements will go into effect for new borrowers that will reduce monthly payments from 15% of a borrower's discretionary income to 10% and decrease the time period to achieve loan forgiveness from 25 years to 20 years. Currently, the forgiveness amount obtained through this program is considered taxable income.

PUBLIC SERVICE LOAN FORGIVENESS

Under Public Service Loan Forgiveness (PSLF), the government will forgive a borrower's remaining federal debt balance after making 120 qualified monthly payments while working full-time in certain public service jobs. Borrowers pursuing a career in Local, State, or Federal Government, a 501(c)(3) non-profit organization, AmeriCorps, the Peace Corps or another public service organization may recognize significant loans savings from this program.

Qualifying loans include: Direct Subsidized Stafford Loans, Direct Unsubsidized Stafford Loans, Direct PLUS Loans, and Direct Consolidation Loans.

To request forgiveness, borrowers must submit an application and provide proof of their employment history and 120 qualifying payments to the Direct Loan Servicing Center. If approved, the government will forgive the remaining principal and interest on the qualifying loans. Unlike IBR, the forgiveness amount under PSLF is not considered taxable income.

ECONOMIC HARDSHIP DEFERMENT

Economic Hardship Deferment is an option that allows qualifying borrowers to defer payment on their federal loans. Benefits include:

- Postponement of payments on their federal loans during the deferment period
- The government will pay the interest on all subsidized loans during the deferment period

FORBEARANCE

Forbearance provides payment relief and temporary liquidity by placing a borrower's federal loans in a non-payment status. Borrowers should note that they are responsible to pay all interest accrued during forbearance. Forbearance is granted at the discretion of the lender but is usually available for borrowers demonstrating need.

FEDERAL LOAN CONSOLIDATION

Federal Loan Consolidation enables borrowers to lock in a fixed rate on variable rate Stafford Loans as well as to combine and/or transfer multiple federal loans to a single lender. On July 1, 2010, the interest rates for variable rate Stafford Loans adjusted to historically low rates:

- The rate on variable Stafford loans that are currently in an in school, grace or deferment status is 1.87%
- The rate on variable Stafford loans that are currently in a repayment status is 2.47%

For many, the primary value of federal consolidation is to lock in a low rate or to transfer loans to the Direct Loan Program in order to participate in the PSLF program. Until June 30, 2011, eligible in-school borrowers can take advantage of consolidation prior to graduation. In-school consolidation can position eligible borrowers to benefit from these federal programs immediately upon graduation. Considerations for taking advantage of this opportunity include the loss of grace period and certain borrower benefits.

Every borrower must evaluate their consolidation options, as timing, structuring, and benefits of loan consolidation are unique to each borrower.

LEARN MORE OR SIGN UP FOR OUR SERVICE
WWW.GLADVISOR.COM | 877-552-9907



Excerpts from

STUDENT CREDIT CRUNCH MAY EASE

By Kim Clark

Thursday, April 15, 2010

Thinking about borrowing to pay for graduate school? Listen first to Bobbie Daniels, a fourth-year osteopathic medical student at the University of Medicine and Dentistry of New Jersey.

She already owes more than \$200,000 in federal student loans. And because of credit card troubles, she couldn't borrow the final \$7,000 she needed for her last year in medical school.

The demand for graduate student loans has never been higher, as economic troubles inspire record numbers of adults to improve their employability with new skills and credentials just as alternative funding options—such as college savings, grants, and loan repayment programs—have dried up ... [b]ut new federal rules, a new income-based repayment option, and tentative signs of thawing in the credit markets hold a few glimmers of hope for anyone considering—or already struggling with—graduate student loans.

The key to finding sufficient and affordable loan funding, say experienced borrowers and financial aid counselors, is for applicants to start cleaning up their credit ahead of graduate school and then try to limit their borrowing to the cheapest federal loan programs.

Dan Thibeault, a founder of Graduate Leverage, a private company that provides loans and borrowing advice to graduate students, says many student borrowers have run into trouble because they "made terrible decisions," such as taking out private loans with variable interest rates instead of sticking with the tried-and-true federal loans...many of [which] are cheap, widely available (to just about any citizen or legal resident), and can be at least partially forgiven in return for public service.

While all students should avoid overborrowing, Thibeault warns medical and law students, especially, against underborrowing. Avoiding federal student loans can backfire if students have to use credit cards or private loans to tide them over after graduation for residency or exam studies...Thibeault recommends that students in their final months of graduate school prepare a budget for the coming year. If it looks as if they'll need extra cash, they should apply for the maximum federal student loans available, which can be disbursed only while a student is enrolled in school. Those who end up not needing the money can repay it quickly, since there is no prepayment penalty for federal loans.

Another big advantage of the federal loans: They now offer a new income-based repayment option that allows students to cap their payments below 15 percent of their incomes. What's more, those who sign up with IBR may have some of their loans forgiven after 10 years of public service or after 25 years of persistently low incomes.

Bobbie Daniels, the medical student, says she is counting on an eventual salary in excess of \$200,000 to help her pay down her big debts. Borrowing so much is not ideal, she says... [b]ut small financial worries shouldn't stop anyone from pursuing a dream education, she adds. "I don't want to discourage people. I am very happy I will be a doctor. If you can afford to do it, you should."

"...[S]tudent borrowers have run into trouble because they 'made terrible decisions,' such as taking out private loans with variable interest rates instead of sticking with the tried-and-true federal loans...many of the federal loans are cheap, widely available (to just about any citizen or legal resident), and can be at least partially forgiven in return for public service."

– Dan Thibeault, CEO and Founder of Graduate Leverage

LEARN MORE OR SIGN UP FOR OUR SERVICE
WWW.GLADVISOR.COM | 877-552-9907