

University of California

Berkeley

Haas School of Business

**Debt Management:
Prepaying Student Loans and
Other Strategies**

Brought to you by the Haas Financial Aid Office

Agenda

- Loan Programs Overview
- Develop a Plan
 - Credit Tips
 - Personal Finances
- Loan Repayment Strategies
 - Standard Repayment
 - Prepayment Options
 - Consolidation and Refinancing
- Resources and Websites

Loan Programs Overview

- Federal Direct Loan
 - Annual Maximum: \$20,500
 - Up to \$8,500 can be subsidized
 - Subsidized v. Unsubsidized
 - Fixed interest rate of 6.8%
 - Origination Fee of 2% (with a 1.5% rebate)
 - 6 month Grace Period
 - 10 year Repayment
 - Extended repayment options if debt over \$30k

Loan Programs Overview

- Federal Direct Grad PLUS Loan
 - Annual Max: Up to COA minus other aid
 - Fixed interest rate of 7.9%
 - Origination Fee of 4% (with a 1.5% rebate)
 - 10 year Repayment
 - Extended repayment options if debt over \$30k
 - Unsubsidized
 - No 6 month grace period!
 - Requires a minimal credit check

Loan Programs Overview

- Private Loans
 - Up to the COA minus other aid
 - Variable Interest rates
 - Usually no fees
 - Usually 6 month Grace Period
 - Requires a credit check
 - Intl Students need a U.S. Co-signer

Loan Programs Overview

Commonly used private loan lenders

- Chase 1-866-306-0868
- Citibank 1-800-967-2400
- Sallie Mae 1-888-272-5543
- SunTrust 1-800-552-3006
- US Bank 1-800-242-1200

Credit Basics

- Get your credit report free from each major US Credit Bureau at annualcreditreport.com
 - TransUnion (800) 888-4213
 - Experian (888) 397-3742
 - Equifax (800) 685-1111
- Get your credit scores too
 - Scores usually range from 500-850
 - Scores don't look at race, sex, marital status
 - Score considers credit history and payment history



Credit Basics

- Some Statistics*
 - Average credit debt of students: \$2,700
 - 10% of students have debt over \$7,000
 - 30% of employers pull credit during the hiring process
- Types of credit
 - Installment, revolving, and single payment
- Opt out of receiving pre-approval offers
 - www.optoutprescreen.com
 - Or call 1(888) 567-8688

*Statistics from Great Lakes Student Loan Guarantor

Personal Finances - Budget

- Identify your Goals
- Budget Items
 - Rent (mortgage, taxes, insurance)
 - Food (groceries, sundries, toiletries)
 - Monthly bills (PG&E, cable, phone)
 - Irregular bills (Car maintenance, tickets)
 - Miscellaneous
 - gasoline, BART/MUNI pass
 - birthdays, dry cleaning

Personal Finances – Invest



Personal Finances

- Develop your own

Personal Board of Directors

- Professional Advisors

- Financial Planner, HR contact at work

- Personal Contacts

- Family, Friends, Colleagues, Classmates

- Haas Resources

- Career Center, Financial Aid, Alumni Association

Loan Repayment Strategies

- What's costing you money by inaction?
 - Consumer debt
 - Auto debt
 - Mortgage debt
 - Student loan debt
 - We'll use student loans as a case in point



Standard Repayment

Debt	6.8% Interest Rate		7.9% Interest Rate	
	<i>Monthly Payment</i>	<i>Total Paid</i>	<i>Monthly Payment</i>	<i>Total Paid</i>
\$10,000	\$115	\$13,810	\$120	\$14,496
\$20,000	\$230	\$27,619	\$240	\$28,992
\$40,000	\$460	\$55,239	\$480	\$57,984
\$60,000	\$690	\$82,858	\$720	\$86,976
\$75,000	\$863	\$103,572	\$900	\$108,720
\$100,000	\$1,151	\$138,096	\$1,200	\$144,960

Over a standard 10 year repayment period.

Prepayment Strategy

Standard repay	Debt	Monthly Payment	Total Paid	Combined Totals
Direct Loan, Yrs 1-10	\$40,000	\$460	\$55,239	
Grad PLUS, Yrs 1-10	\$20,000	\$240	\$28,992	
Combined Payments				\$700
Combined Total Paid				\$84,231
Prepay strategy	Debt	Monthly Payment	Total Paid	Combined Totals
Direct Loan, Yrs 1-4.5	\$40,000	\$460	\$24,840	
Grad PLUS, Yrs 1-4.5	\$20,000	\$440	\$23,830	
Direct Loan, Yrs 4.5-7	\$24,840	\$900	\$27,081	
Grad PLUS, Yrs 4.5-7	\$0	\$0	\$0	
Combined Payments				\$900
Combined Total Paid				\$75,751
Savings!				\$8,480

Prepayment Strategies

Standard 15 year repayment for private loans:			
<i>Debt</i>	<i>Interest Rate</i>	<i>Monthly Payment</i>	<i>Total Paid</i>
\$60,000	7%	\$539	\$97,703
\$80,000	7%	\$719	\$129,431

Putting yourself on a 10 year repayment period:			
<i>Debt</i>	<i>Interest Rate</i>	<i>Monthly Payment</i>	<i>Total Paid</i>
\$80,000	7%	\$929	\$111,464

Savings = \$17,967

\$929 = 46,777 INR
(Indian Rupees)

\$929 = 1,234,096 KRW
(Korean Won)

Consolidation

- Consolidation
 - Not the savvy choice it used to be
 - Weighted average
 - Interest capitalization
- Loans must be in one of following statuses:
 - 6 month Grace Period
 - Repayment (begins after Grace Period expires)
 - Deferment or Forbearance

Consolidation Pros and Cons

- Consolidation Benefits
 - Can reduce monthly loan payment
 - Increases monthly cash flow
- Consolidation Drawbacks
 - Loans disbursed after July 1, 2006 already have a fixed rate (6.8%)
 - Due to interest structure, it's more expensive to consolidate fixed rate loans
 - New rate would be 6.875%
 - Increased repayment term results in more interest being paid over the life of loan

Consolidation Calculation

Existing loans example:


Subsidized Direct =	\$ 8,500 @ 6.80%
Unsubsidized Direct =	\$10,000 @ 6.80%
Grad PLUS =	\$10,000 @ 7.90%

- **Determining the weighted average:**
- **Step 1:**
 - $8,500 * 6.80 = 57,800$
 - $10,000 * 6.80 = 68,000$
 - $10,000 * 7.90 = 79,000$
- **Step 2:** $57,800 + 68,000 + 79,000 = 204,800$
- **Step 3:** $8,500 + 10,000 + 10,000 = 28,500$
- **Step 4:** $204,800 / 28,500 = 7.186$
- **Step 5:** **7.25%**

Minimizing Debt – More Options

- Resources from your employer
 - Company “reimburses” your fees
 - Forgivable Loans
 - Use signing bonus to pay down principal
- Loan Repayment Assistance Program (LRAP)
 - Available to Full-Time MBA alumni
 - Public or Non-profit work
 - Maximum income threshold \$80,000
 - <http://www.haas.berkeley.edu/mba/finaid/LRAP.htm>

Summary

- Identify financial goals
- Create a financial plan
- Track expenses and list your debts
- Make use of resources available
- Pay off debt, pre-pay when possible
- Think outside the box 

Resources

- Budget tool, calculates for you:
 - <http://www.finaid.org/calculators/studentbudget.phtml>
- Deduct your MBA expenses:
 - <http://www.irs.gov/pub/irs-pdf/p970.pdf>
- Currency Converter:
 - <http://www.xe.com/ucc/>
- Interest rate indices:
 - http://online.wsj.com/mdc/public/page/2_3020-moneyrate.html

Resources

- Student loan repayment calculator:
 - http://www.edfund.org/edwise/edw_StandardCalc.html
- Student loan repayment calculator:
 - <http://www.salliemae.com/apps/SMCalcs/RWCW/content/repay1.aspx>
- Student loan repayment calculator:
 - <http://www.bretwhissel.net/amortization/amortize.html>

Resources

- Direct Loan Servicing 1-800-848-0979
 - www.dl.ed.gov
- Direct Loan Consolidation 1-800-557-7392
 - www.loanconsolidation.ed.gov
- Direct Loan Exit Counseling
 - <https://www.dl.ed.gov/borrower/BorrowerLogin.jsp>
- View a summary of all your federal loans
 - www.nslds.ed.gov

Thank You!


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