Haas Financial Aid

University of California, Berkeley

Educational Loans: Bending the Path On Your Student Indebtedness
Agenda

- Shifting Priorities
  - Personal Finances
- Federal Loans
  - Terms & Conditions
  - Special Repayments
- Private Loans
  - Lender Information
- Reducing Debt
  - Refinancing
  - Additional Options
Budgets & Buckets

Note: Student loans, as a form of installment debt, show that you can manage debt over time.

- Your Past
  - Borrow Student Loans

- Your Present
  - Living Life, Career Growth, Pay Student Loans

- Your Future
  - Investments, Savings, Retirement

- Your Philanthropy
  - Donations, Charity, Children

What is your plan a way to put money into each of these buckets?
Tip: Instead of just paying credit cards, call the company and ask for a lower limit and interest rate.

Personal Finances

- Whatever your plan in life, and whatever your big dream
  - Starting a company
  - Growing a family
  - Buying a home

If you take home $120,000/year, it’s not reasonable to pay more than 15%, or $1,500 per month towards your loans, but you may not have to do even that...
Personal Finances

- How do you work your debt to allow you to pursue your dreams?
- Can you get a mortgage while carrying student loan debt?
  - Ability to pay
    - Sufficient collateral (down payment)
    - Based on debt-to-income ratio
    - Debt ratio shouldn’t >40% of income
    - Student loan shouldn’t exceed 15%
    - Leaves 25% for mortgage
    - Doesn’t include saving for retirement

Note: Average debt for the FT MBA ’14 Class was $77,628. For EW MBA it was $68,501.
Sample Monthly Payments

Federal Loan Monthly Payment
• $20,500 at 6.21% for 10-years
  – $230/month, or $25,570 total
• $10,000 at 7.21% for 10-years
  – $117/month, or $14,060 total

Private Loan Monthly Payment
• $10,000 at 5.5% for 15 years
  – $85/month, or $14,710 total

Tip: Pay off interest while in your grace period before it is capitalized.
Federal Direct Loan

- **Amount**
  - Up to $20,500 per academic year
- **Unsubsidized**
  - Interest accruing since disbursement
- **Interest rates**
  - Loans disbursed through 12-13: 6.8%
  - Loans disbursed in 13-14: 5.41%
  - Loans disbursed in 14-15: 6.21%
- **Repayment**
  - 6-month grace period
  - No pre-payment penalties
  - Standard 10 year repayment

*Note: Origination Fees taken at disbursement, do not impact total principal owed.*
Federal Grad PLUS Loan

- **Amount**
  - Up to COA minus other financial aid
- **Unsubsidized**
  - Interest accruing since disbursement
- **Interest rates**
  - Loans disbursed through 12-13: 7.9%
  - Loans disbursed in 13-14: 6.41%
  - Loans disbursed in 14-15: 7.21%
- **Repayment**
  - 6-month grace period
  - No pre-payment penalties
  - Standard 10 year repayment

*Tip: Sign up for ACH payments for a 0.25% interest rate reduction on your Federal Loans.*
Tip: Don’t just ask for a forbearance, describe your situation; you may qualify for a deferment.

Rights and Responsibilities

• Deferment & Forbearance
  – Deferment while in-school half-time
  – Forbearance for hardship

• Delinquency and Default
  – If you fail to make a payment you become delinquent
  – If delinquent for 270 days, you go into default. Your credit is damaged, and tax refunds garnished by government.

• Death and Disability Cancellation
  – If you become permanently disabled or pass away, loan will be discharged

Federal Loans
Note: You need your FAFSA PIN to sign-in. If you lost it, find it at https://pin.ed.gov

*You will be prompted to create a new log-in spring 2015 which will no longer require typing in your SSN.
Federal Loan Consolidation

Tip: Don’t consolidate a 7.9% Grad PLUS with other Federal Loans through the government. Instead, target pre-payments toward this high interest loan.

• Usefulness
  – Convenient if you have additional Federal Loans from undergrad (whether “FFEL” or “Direct”)
  – All loans would need to be “Direct” to get Public Service Loan Forgiveness

• Weighted Average Interest Rate
  – Any accrued interest is capitalized
  – Interest rate rounded up to the nearest eighth of a percent
  – Not available while “in-school”
Advisement: The 1098-E shows interest paid. You may earn too much to write off the interest.

**Repay versus Prepay**

- Scenario of what you can save even without prepaying:
  - Debt: 2 years of Direct Loan = $41k, and $40k in Grad PLUS Loans
  - Strategy: pay off interest before it’s capitalized and sign up for ACH payments…
    - that alone would save $14,610!
  - Also the monthly payment would be reduced by $125, that’s a night out.
  - That’s with a standard 10-year plan and no prepayments
Federal Repayment Plans

Tip: You can change your repayment plan at any time to meet your changing needs.

- Federal Loans have many options
- Standard, 10 year repayment
  - You’ll likely save the most on this plan
- Extended, 25 year repayment
  - Need at least $30,000 in federal loans
- Graduated, 10 year repayment
  - Payment amount grow over time
- Income Contingent Repayment (ICR)
  - Monthly payment varies according to gross income
  - Must apply annually
Advice: Student Loan payments should never exceed 15% of monthly income.

Income-Based Repayment (IBR) & Public Service Loan Forgiveness

- Eligible Borrowers
  - Working in Public Service
  - Full-time employment
  
www.IBRinfo.org

Pay as You Earn (PAYE)

- Eligible Borrowers
  - Income based, online calculator:
  
http://studentaid.ed.gov/repay-loans
## Special Federal Repayment Plans

**Sample, single in CA, $100k income with $100,000 in Federal Loans**

<table>
<thead>
<tr>
<th>Repayment Plan</th>
<th>Repayment Period</th>
<th>Monthly Payment Initial to Final Amounts</th>
<th>Projected Loan Forgiveness</th>
<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard*</td>
<td>120 months</td>
<td>$1.141 to $1.141</td>
<td>$0</td>
<td>$35,968</td>
<td>$136,968</td>
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<tr>
<td>Graduated*</td>
<td>120 months</td>
<td>$655 to $1,966</td>
<td>$0</td>
<td>$45,738</td>
<td>$146,738</td>
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<tr>
<td>Extended Fixed</td>
<td>300 months</td>
<td>$675 to $675</td>
<td>$0</td>
<td>$101,586</td>
<td>$202,586</td>
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<tr>
<td>Extended Graduated</td>
<td>300 months</td>
<td>$538 to $990</td>
<td>$0</td>
<td>$118,949</td>
<td>$219,949</td>
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<tr>
<td>Pay As You Earn**</td>
<td>168 months</td>
<td>$687 to $1,141</td>
<td>$0</td>
<td>$58,866</td>
<td>$159,866</td>
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<tr>
<td>Income-Based Repayment (IBR)**</td>
<td>124 months</td>
<td>$1,031 to $1,141</td>
<td>$0</td>
<td>$37,574</td>
<td>$138,574</td>
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<tr>
<td>Income-Contingent Repayment (ICR)**</td>
<td>98 months</td>
<td>$1,258 to $1,456</td>
<td>$0</td>
<td>$29,743</td>
<td>$130,743</td>
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</table>
Note: Each of your private loans should appear on at least one credit report, if you have an SSN.

Private Loans

Commonly used private loan lenders
• CharterOne Trufit 1-800-721-3969
• CommonBond 1-800-975-7812
• Discover 1-877-728-3030
• Sallie Mae 1-888-272-5543
• Wells Fargo 1-800-658-3567

Basic terms of private lenders:
• Always unsubsidized
• No pre-payment penalties
• Usually 6-month grace period
• Most offer 0.25% reduction for ACH
• Co-signer Release, if applicable
Refinancing Student Loans

Advice: Ask about processing fees and check repayment periods before committing.

Refinance just private loans
• Wells Fargo, at fixed and variable rates: https://www.wellsfargo.com

Refinance federal and private loans
• Charter One, at fixed and variable rates: http://www.charterone.com
• CommonBond at fixed and variable rates: https://commonbond.co
• CU Student Loans, at variable rates: http://www.custudentloans.org
• SoFi (Social Finance) at fixed rates: www.sofi.com

Reducing Debt
Additional Options

Advice: Get in the habit of keeping a file folder for your “Student Loan Information”.

- Resources from your employer
  - Company “reimburses” your fees
  - Use signing bonus to pay down principal

- Loan Repayment Assistance Program (LRAP)
  - Available only to Full-time MBA alumni
  - Working in Non Profit or Public Service
  - Maximum ‘income’ threshold $90,000/year

- Financing targeted to B-School alums
  - Upstart: https://www.upstart.com/
  - Peerform: https://www.peerform.com/
Resources

- Federal Loan Exit Counseling
  - [www.studentloans.gov](http://www.studentloans.gov)
- Loan Repayment Calculator
  - [https://studentloans.gov/myDirectLoan/repaymentEstimator.action](https://studentloans.gov/myDirectLoan/repaymentEstimator.action)
- Federal Loan and Servicer Info
  - [www.nslds.ed.gov](http://www.nslds.ed.gov)
- Deduct MBA Expenses
- Haas Financial Aid Office
  - [www.haas.berkeley.edu/finaid](http://www.haas.berkeley.edu/finaid)

Note: Federal Exit Counseling has even more info on rights and responsibilities.
Thank You!

Financial Aid Contact Information:
Daniel Roddick, Director
Jamie Hayden, Assistant Director
Adrian Ramos, Assistant Director

Phone: 510-643-0183
finaid@haas.berkeley.edu
www.haas.berkeley.edu/finaid