

What if I Can't Pay: Options for Financially Challenged Borrowers

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More than **1 million** borrowers default on their student loans each year

Nearly **40%** of borrowers are expected to default on their student loans by 2023

One-in-five employed adults ages 25 to 39, with at least a bachelor's degree and outstanding student loans, have more than one job and report **struggling financially**

Source: cbsci.com, August 2018; Pew Research Center, 2017



"College degrees pay off in the long run, but many graduates struggle to manage their debt upon graduation."

Source: New York Times, January 2015



Agenda

- 1 Benefits of communicating with the servicer
- 2 Options borrowers have if they can't pay
- 3 Outreach strategies for borrowers



Benefits of Communicating with the Servicer



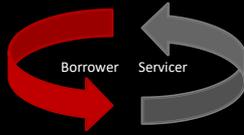
Borrower/Servicer Relationship

Borrowers who are engaged and informed are more likely to be successful in repayment



Borrower/Servicer Relationship

Two-way communication is essential to ensuring the borrower has success in repayment



Servicer Communication to Borrower

In-school

- New to servicer
- Additional loan
- Accruing interest update
- Continuous enrollment



Servicer Communication to Borrower

Grace period

- Estimate your payment
- Exiting grace
- Get ready for repayment
- Payment schedule



Servicer Communication to Borrower

Repayment

Payment schedule and disclosure

1098-E interest statement

Monthly billing statement

Paid in full notification



When Help is Needed

Borrowers should reach out to their servicer when they:

- Cannot afford to make a payment
- Have questions about their bill
- Have any questions about their account
- Don't understand the terms of their loan



When Help is Needed

Borrowers should reach out to their servicer when they:

- Drop below half-time
- Withdraw from school or graduate
- Plan to return to school



When Help is Needed

Borrowers should reach out to their servicer when they need to:

- Select or switch their repayment plan
- Change their monthly payment due date
- Enroll in automatic payments
- Obtain information about loan forgiveness



When Help is Needed

Borrowers should reach out to their servicer when they need to:

- Update their name, address, or phone number
- Request a deferment or forbearance
- Determine if consolidation is right for them
- Obtain their student loan interest statement



When Help is Needed

Borrowers should reach out to their servicer when they need to:

- Create an online account
- Make interest-only payments
- Authorize a third party to act on their behalf
- Obtain payoff amount



Five Options Borrowers Have if They Can't Pay



Advising Sasha

Hi, my name is Sasha. I graduated from school a year ago and even though I've been working the entire time, I'm struggling financially. Between rent, child care, utilities, car payment, insurance, and student loan payment, I only have \$100 left at the end of each month. Sometimes I don't even have enough money for food, gas, and other incidentals. I've been trying to live as frugal as possible but it doesn't seem help. What can I do?

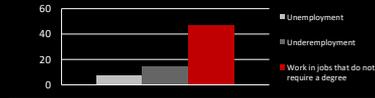


How would you advise Sasha?



Living Paycheck to Paycheck

2015 college graduates*



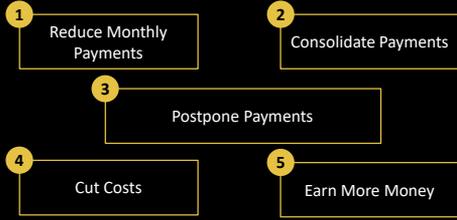
56% said they were living paycheck to paycheck**

40% said they were overwhelmed by their debt**

Source: *Economic Policy Institute, May 2015; **Los Angeles Times, June 2014



Options Borrowers Have if They Can't Pay



1. Reduce Monthly Payments

- Fact 1**
Borrowers will remain in the standard repayment plan unless they select a different one
- Fact 2**
Direct Loan borrowers can change their plan at any time



1. Reduce Monthly Payments

Borrowers will pay the least amount of interest on the Standard plan—however it typically will have the highest monthly payment

Non-income Driven Repayment	
	Standard
	Graduated
	Extended
	Alternative
Income-Driven Repayment	
	Income-based Repayment (IBR)
	Pay As You Earn (PAYE)
	Revised Pay as You Earn (REPAYE)
	Income Contingent Repayment (ICR)



Income-Driven Repayment

- Designed to give borrowers a monthly payment relative to their income
- Must apply each year
- Balance is forgiven if the loan is not fully paid at the end of the qualified repayment period



Income-Driven Repayment

Eligibility Comparison

Repayment Plan	Eligible Loan(s)	Financial Need Requirement	Other Eligibility Requirements
PAVE	Direct Loans	Partial Financial Hardship	No balance before 10/1/07 and a disbursement after 10/1/11
IBR	Direct & FFEL Loans (pre-7/1/14); Direct Loans (after 7/1/14)	Partial Financial Hardship	
REPAYE	Direct Loans	None	
ICR	Direct Loans	None	



Sasha's Repayment Options

Direct Loan debt – \$23,000
Annual salary – \$27,000
Family size – 2

	Monthly Payment	Total Amount Paid	Repayment Term	Forgiveness
Standard	\$232	\$27,813	120 months	n/a
Graduated	\$130-\$398	\$29,003	120 months	n/a
PAYE	\$19-\$232	\$26,774	240 months	\$13,217
REPAYE	\$19-\$312	\$37,546	277 months	\$0
IBR	\$19-\$232	\$26,774	240 months	\$13,217
ICR	\$136-\$171	\$32,286	212 months	\$0

4.9% interest rate; annual 5% annual salary increase



Sasha's Monthly Savings

By changing from the standard plan she could save each month:

- \$102 – Graduated*
- \$213 – PAYE, REPAYE and IBR**
- \$96 – ICR**

* Increases every two years
** Changes annually based on income



2. Consolidate Payments

Direct Consolidation combines federal loans into a single loan

Existing loans are paid in full and replaced with a new loan

Establishes new interest rate, repayment schedule, and terms

The interest rate is a weighted average of underlying loans rounded up to the next 1/8 of one percent



2. Consolidate Payments

Direct Consolidation Loan could provide borrower with a lower monthly payment

Repayment Plans Available
Standard
Extended
Pay As You Earn (PAYE)
Income-based Repayment (IBR)
Revised Pay as You Earn (REPAYE)
Income Contingent Repayment (ICR)



Length of Repayment

Payments are based on total education loan debt, depending on the repayment plan

Total loan debt	Repayment term
Less than \$7,500	10 years
\$7,500 to \$9,999	12 years
\$10,000 to \$19,999	15 years
\$20,000 to \$39,999	20 years
\$40,000 to \$59,999	25 years
\$60,000 or more	30 years



Consolidation Considerations

Borrowers should consider consolidation when they:

- Have multiple payments
- Earn an income that disqualifies them for one of the IDR plans
- Have a spouse whose income disqualifies them from one of the IDR plans
- Have a defaulted loan
- Have other education loan debt



3. Postpone Payments

Deferment

- Postpones payments if borrower meets the eligibility requirements
- Federal government pays the accruing interest on subsidized loans

Forbearance

- Postpones or reduces payments if borrower meets eligibility requirements
- Interest accrues on all loans



Unemployment Deferment

For borrowers who:

- Receive unemployment benefits; or
- Diligently seeking but unable to find full-time employment
 - If employment agency is within 50 miles, must register



Economic Hardship Deferment

For borrowers who:

- Received one from another loan program – or –
- Receiving federal or state public assistance – or –
- Peace Corp volunteer – or –
- Work full time and earn less than 150% of the poverty line for the borrower's family size and state



Benefits of a Deferment

Benefits

- Entitlement program
- Federal government pays the accruing interest on subsidized loans
- Only considers the borrower's income, not the spouse

Drawback

- Interest accrues on unsubsidized and PLUS loans
 - Interest will capitalize at the end of deferment unless paid by the borrower



Benefits of a Forbearance

Benefits

- May be used to bring a delinquent loan current
- Many requests may be taken over the phone or online
- Only considers the borrower's income, not the spouse

Drawback

- Interest accrues on all loans
- Interest will capitalize at the end of the forbearance unless paid



4. Cut Costs

Create a budget

Log daily expenses

Re-evaluate



4. Cut Costs

Housing

- Cheaper rent
- Roommate
- Live with parents or other family members



Transportation

- Is a car necessary?
- Buy previously owned car, if needed



4. Cut Costs

- ➔ Shop around for lower:
 - Auto insurance
 - Cell phone and internet plans
- ➔ Check financial institutions and credit cards for additional or hidden fees
- ➔ Eliminate cable or change package
- ➔ Cook at home



4. Cut Costs

- ➔ Comparison and sale shop
- ➔ Eliminate or renegotiate unnecessary memberships
- ➔ Reduce impulse buying
- ➔ Set limits:
 - Number of times to dine out
 - Weekend spending
 - Indulgences



What are some ways borrowers can cut costs after they have graduated?



5. Find Ways to Earn More Money

- Child or pet sit
- Teach private lessons
- Outsource skills or tasks
- Freelance
- Teach a class
- Earn money with car
- Sell old stuff
- Tutoring



What are some ways borrowers can earn additional money?



Outreach to Your Borrowers



Connect with Your Former Students

Many delinquent borrowers:

- Have never responded to their servicer
- Have monthly payments that aren't affordable but they are unaware of their options
- Often are avoiding other creditors
- Are more willing to communicate with their school than their servicer



Connect with Your Former Students

- Use the NLSDS Delinquency Borrower Report (DELQ01)
- Reach out to them via phone, email, or mail
- Let them know that they have options



Connect with Your Former Students

IDR campaign

- Send email or letter informing delinquent borrowers of the income-driven repayment plans
- Include these steps:
 - ✓ Go online:
<https://studentloans.gov/myDirectLoan/ibrinstructions.action?source=15SPRRPMT>
 - ✓ Sign in using your FSA ID
 - ✓ Complete the Income-Driven Repayment Plan Request (IDR) form
 - ✓ Follow directions to submit request



Conclusion and Resources



It Takes a Village

- Financially challenged borrowers benefit most from a village approach
- Use several methods to connect with them — and strategies to get their attention
- Encourage them to contact their servicer



Resources

- NLSDS Delinquency Borrower Report (DELQ01)
- Studentloans.gov
 - Repayment Estimator
- Bankrate.com
- Annualcreditreport.com



Questions?



Thanks for Attending

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