



# **It's a New Game: How to assist students in managing their student loan portfolio**

11/28/2007

## Speakers and Panelists

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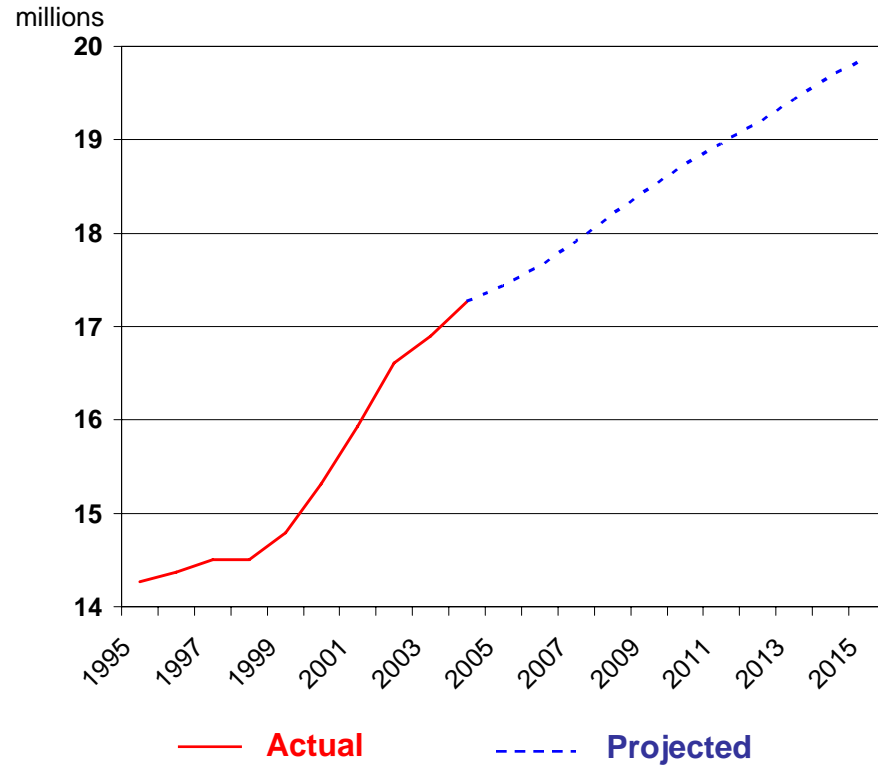
### Speakers

- Scott Buchanan, Manager Government Relations, Sallie Mae
- Michelle Pezzulli, Vice President Repayment Solutions, Sallie Mae
- Kristin Hawley-Johnson, Director of Sales, Sallie Mae

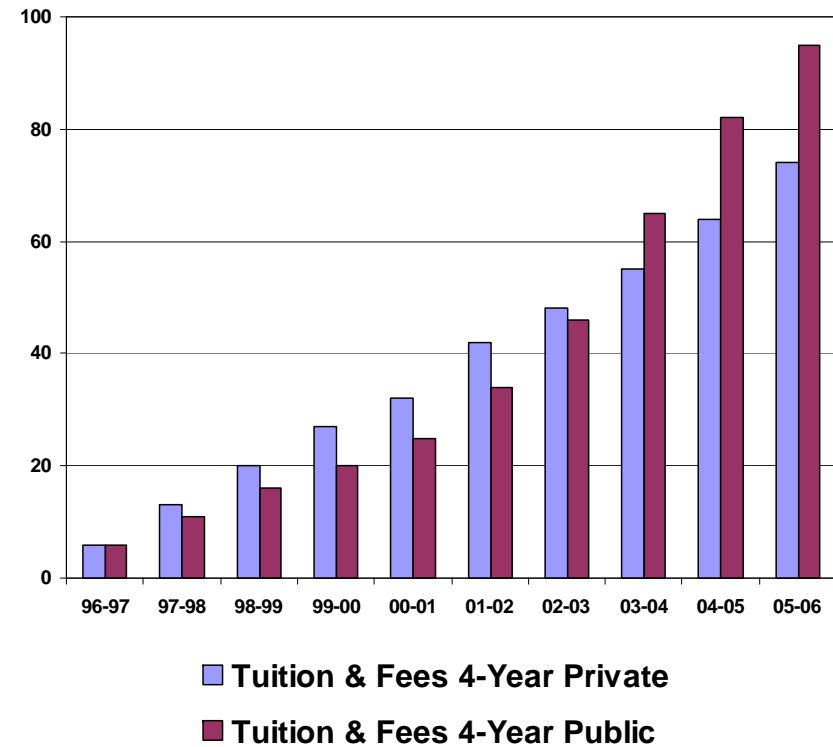
### School Panelists

- Michael Locke, Assistant Director of Financial Aid, Berklee College of Music
- Michael DiRuzza, Associate Director of Financial Aid, Worcester Polytechnic Institute
- Joanne Dashiell, Associate Director of Student Financial Services, Massachusetts College of Pharmacy and Health Sciences
- Dan Forster, Associate Director of Financial Aid, Simmons College

## Student Enrollment Projections Degree Granting Institutions



## Average Cost of College Attendance Cumulative % Increase



Source: National Center for Education Statistics, U.S. Census Bureau and The College Board. Average per student cost of attendance in current dollars, including tuition, fees and on-campus room and board.

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# Reality

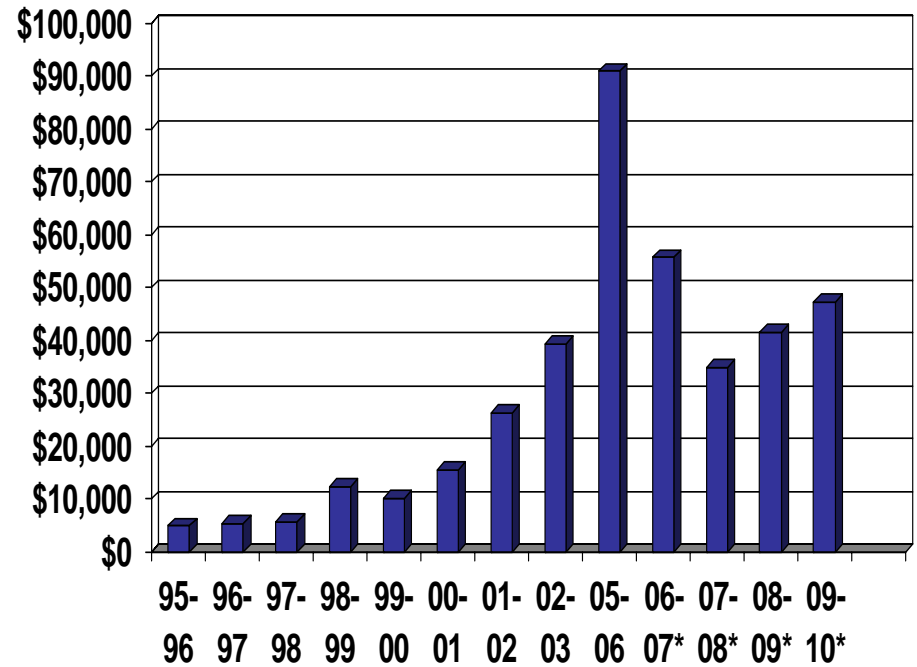
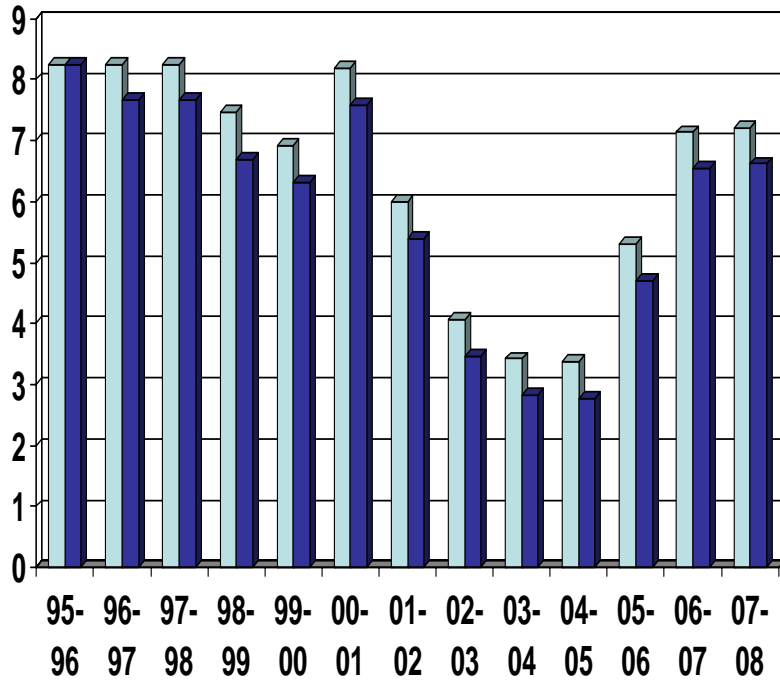
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## The History and Evolution of Loan Consolidation

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- Established in 1986 to reduce default rate and costs
- Provides options to assist borrowers in
  - **Reducing monthly payment by extending the repayment term from a maximum of 10 years to up to 30 years**
  - **Combining multiple payments to different lenders or servicers into one payment, to one lender or servicer**
- Generally only used or recommended to provide monthly payment relief and/or convenience

# The History and Evolution of Loan Consolidation



\*Forecasted volume amounts

Source: FY 2008 President's Budget. <http://www.ed.gov/about/overview/budget/studentloantables/index.html>

## The History and Evolution of Loan Consolidation

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- Overall factors that influenced demand
  - Large increase in variable interest rates 2 years in a row
  - Early repayment consolidation option for FFELP loans
  - Elimination of single holder rule on June 15, 2006
  - Intense marketing to borrowers
- Spring 2006 season was smoother than Spring 2005
  - Rates were still low
  - Industry was better prepared
  - Borrowers were familiar with process
  - Schools were able to provide more education
- The 2007 season was quiet and saw less activity
  - Rates increased
  - Borrowers with solely fixed rate loans did not consolidate
  - Borrowers with 7.14% variable Stafford loans did not want to factor this rate into consolidation

## The History and Evolution of Loan Consolidation

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<b>Academic Year</b>	<b>Number of Borrowers</b>	<b>Average Loan Balance</b>
1995-96	333,000	\$14,857
2005-06	3,257,000	\$27,917
<b>2015-16</b>	<b>1,921,000*</b>	<b>\$36,229*</b>

\* Forecasted figures

Source: FY 2008 President's Budget. <http://www.ed.gov/about/overview/budget/studentloantables/index.html>

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## 2006 Legislative Changes

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- Changes *directly* affecting consolidation as of July 2006:
  - **Elimination of in-school consolidation in DL and early repayment consolidation in FFEL**
    - Consolidation permitted only when loans are in a grace or repayment status, including deferment or forbearance
  - **Elimination of spousal consolidation**
  - **Termination of consolidation eligibility upon receipt of a consolidation loan in either the FFEL or DL program, unless borrower meets certain specific conditions**
  - **Mandates parallel terms between FFEL and DL consolidation loans (except as explicitly noted)**
  - **Elimination of Single Holder Rule**
    - (effective June 15, 2006)

## Newest Legislative Changes

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### College Cost Reduction and Access Act of 2007:

- **Reduces interest rates on undergraduate subsidized Stafford loans for loans first disbursed on or after July 1, 2008 and prior to July 1, 2012**
- **Increases loan fees from lenders from .5% to 1% of the principal amount of the loan on all FFEL program loans made on or after October 1, 2007**
- **Reduces lenders' SAP for Stafford loans and consolidation loans originated:**
  - by 55 basis points for for-profit lenders; and
  - by 40 basis points for not-for-profit lenders
- **Eliminates exceptional performer status, reducing default insurance to 97% for exceptional performer lenders**
- **Reduces lender insurance (the amount reimbursed to lenders on defaulted loans) to 95% of the unpaid principal of loans in 2012**

## Market Place Factors

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- Debt levels continue to rise
  - **Federal and private loans**
  - **Credit cards**
- Students will receive direct marketing solicitations from numerous lenders
  - **Offers may include Stafford, Grad PLUS, Consolidation, and private loans**
- Pressure on schools not to recommend one lender over another
- Students need information!

## Market Place Factors

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- Impact of the College Cost Reduction and Access Act of 2007
  - Borrower benefit offerings may change (and in many cases, have already changed)
  - Consolidation-only lenders and marketers may leave the industry or expand their loan offerings
- Consolidation environment in the industry has fundamentally changed
  - Elimination of single holder rule means competition
  - Industry shifts may increase direct to consumer (DTC) marketing

## Market Place Factors

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- Schools
  - Increased on-campus marketing activities
  - More lenders/brokers/consolidators working with your students while they are in school
  - Possibility that current lenders will not be able to provide same level of service/benefits
  - Cohort default rate could be negatively impacted
- Lenders
  - Increased competition from student loan industry lenders
  - Will need to reexamine borrower benefits

## Repayment Strategy

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- 2007-08 graduating borrowers' debt portfolio may contain any or all of the following:
  - Federal Student Loans
    - **Consolidation loan with a fixed rate**
    - **Perkins loan with a fixed rate**
    - **Stafford loan with a variable rate**
    - **Stafford loan with a fixed rate**
    - **Grad PLUS loan with a fixed rate**
  - Private loans with a variable rate
  - Credit cards, likely with a variable rate

## Repayment Strategy

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- Repayment Terms Strategy
  - **Pay student loan debt quickly**
  - **Pay higher rate debt first**
  - **Save for the future: home, family, etc.**
  - **Relocate, go into business, start a practice**
- Interest Rates
  - **Rate is based on the interest rates of the underlying loans being consolidated**
- Repayment Amounts
  - **Evaluate:**
    - Borrower benefits
    - Current and future salary expectations
    - Value of a monthly budget
- Total Repayment Costs

## Repayment Strategy

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### Scenario John

- **John graduated with his MBA five months ago. His grace period on his graduate Stafford loans is about to end.**
  - He is thinking about whether consolidation is the best option for him.
  - John's goal is to minimize his monthly payments.

# Repayment Strategy

Loan Type & Amount	Current Interest Rate	Underlying Interest Rate	Remaining Grace Period	Unearned Benefits
Subsidized Stafford Loan \$10,000	6.62% variable - is increasing to 7.22% at repayment	6.62% variable	None	None
Subsidized Stafford Loan \$17,000	6.8% fixed	6.8% fixed	None	1% for 36 on time pmts.
Perkins Loan \$18,000	5% fixed	5% fixed	None	Interest subsidy
Parent PLUS Loan \$3,000	8.02% variable	8.02% variable	None	None
Unsub Stafford Loan \$22,000	6.8% fixed	6.8% fixed	None	1% after 36 on time pmts
Grad PLUS \$7,000	6.75%*	8.5% fixed	None	% loan credit after on time payments

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\*Assumes borrower meets all conditions to earn interest rate reduction



## Repayment Strategy

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- Monthly amount due is the most important consideration since John's goal was to *minimize the monthly payment amount*.
- Consider consolidating eligible loans to obtain maximum repayment term.
- Consider using extended repayment option, if eligible.
- Consider future earnings and how that will impact ability to pay.
- Consider consolidating higher interest loans separately.

## Repayment Strategies

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- John consolidates all loans into one new loan

- **\$77,000**
- **Fixed 6.625% rate**
- **30 years to repay**
- **\$495 payment**
- **Repays \$178,392**

- John considers extended repayment on his loans

- Minimum balance requirement is >\$30,000
- Maintains both fixed and variable interest rates
- 25 years to repay
- **\$523 payment**
- **Repays \$156,810**

- John consolidates loans separately

	Yrs	Amt	Total
Stafford and Perkins:	30 yrs	\$420	\$151,214
Grad PLUS and PLUS:	15 yrs	\$97	\$17,576
<b>TOTAL</b>		<b>\$517</b>	<b>\$168,790</b>

When John comes in looking for guidance, what is the best option for him?

# Repayment Strategy

Portfolio Management Goal	Repayment Strategy
<ul style="list-style-type: none"> <li>■ Minimize total repayment costs</li> </ul>	<ul style="list-style-type: none"> <li>■ Select the repayment option with the highest monthly payment and shortest repayment term that can reasonably be afforded.</li> <li>■ Pay accruing interest (or as much as possible) during periods in which payments are not required (in-school, grace, deferment, and forbearance periods).</li> <li>■ Prepay loans with highest interest rates first.</li> <li>■ Ensure all required actions are taken to earn incentive benefits, if available.</li> <li>■ Consolidate variable rate loans when interest rates are low.</li> <li>■ Compare current incentive benefits to consolidation benefits <u>before</u> consolidating.</li> <li>■ Review options for receiving cancellation benefits from employer/federal government.</li> </ul>
<ul style="list-style-type: none"> <li>■ Aggressively repay higher interest rate loans</li> </ul>	<ul style="list-style-type: none"> <li>■ Pay minimum amounts on lower rate loans and pay higher rate loans aggressively.</li> <li>■ Review repayment plan on lower rate loans to reduce the payments on those loans, allowing for aggressive repayment on higher rate loans.</li> <li>■ Review postponement options on lower rate loans to reduce or temporarily eliminate payments on those loans, allowing for aggressive repayment on higher rate loans.</li> <li>■ Do not consolidate higher rate loans, or consider consolidating them separately.</li> </ul>
<ul style="list-style-type: none"> <li>■ Minimize monthly payment (short-term)</li> </ul>	<ul style="list-style-type: none"> <li>■ Review deferment options.</li> <li>■ Review graduated repayment plan. (If given options, choose a graduated schedule with first tier payment that corresponds to length of time repayment relief is needed.)</li> <li>■ Review forbearance options. (<b>Caution:</b> Check with your lender regarding the effect, if any, that using a forbearance may have on incentive benefits!)</li> </ul>
<ul style="list-style-type: none"> <li>■ Minimize monthly payment (long-term)</li> </ul>	<ul style="list-style-type: none"> <li>■ Review extended repayment option if you are eligible.</li> <li>■ Consolidate eligible loans to obtain maximum repayment term.</li> </ul>
<ul style="list-style-type: none"> <li>■ Minimize payments to multiple companies</li> </ul>	<ul style="list-style-type: none"> <li>■ Consolidate eligible loans with a single lender.</li> <li>■ Consider obtaining a private consolidation loan with the lender of your federal loans.</li> </ul>
<ul style="list-style-type: none"> <li>■ Manage private loan repayment</li> </ul>	<ul style="list-style-type: none"> <li>■ Pay accruing interest (or as much as possible) during periods in which payments are not required.</li> <li>■ Consult lender of private debts to review repayment plans available.</li> <li>■ Consider obtaining a private consolidation loan with the lender of your federal consolidation (or vice versa). (<b>Tip:</b> Applying with a cosigner and/or improving your FICO score <u>before</u> consolidating private loans may result in better interest rates.)</li> <li>■ Consider reducing monthly payments on federal loans to aggressively repay private debts.</li> </ul>
<ul style="list-style-type: none"> <li>■ Manage credit card repayment</li> </ul>	<ul style="list-style-type: none"> <li>■ Consider reducing monthly payment amounts on federal loans to aggressively repay credit cards.</li> <li>■ Stop/minimize use of credit card until balance is low enough to pay-in-full every month.</li> </ul>

## Repayment Strategy

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# Questions?

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