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

11/28/2007

Champions for Higher Education.℠

Speakers and Panelists

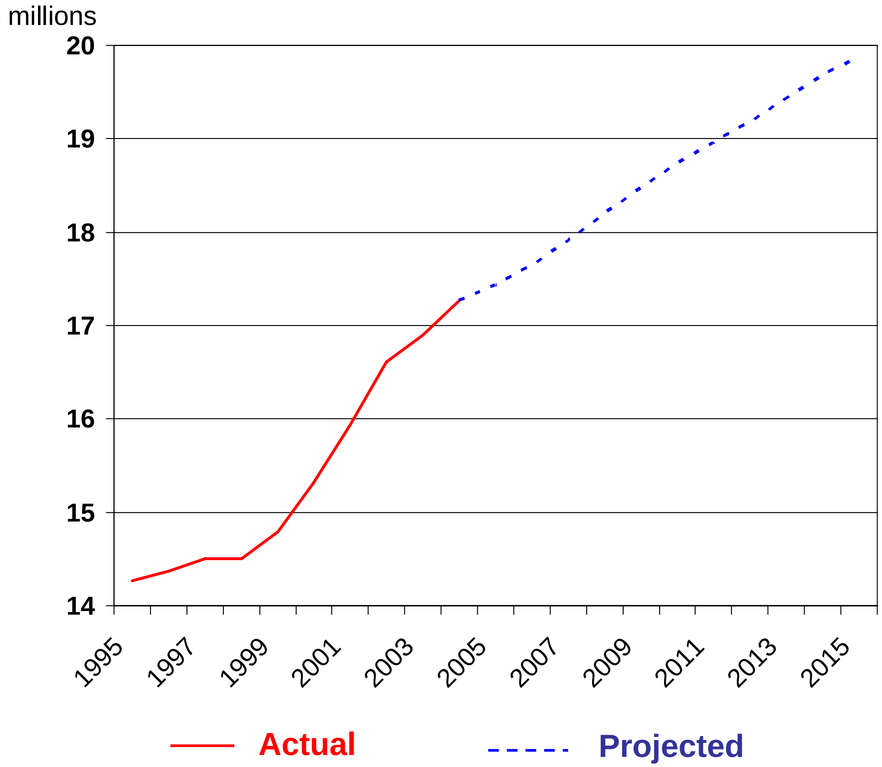
Speakers

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

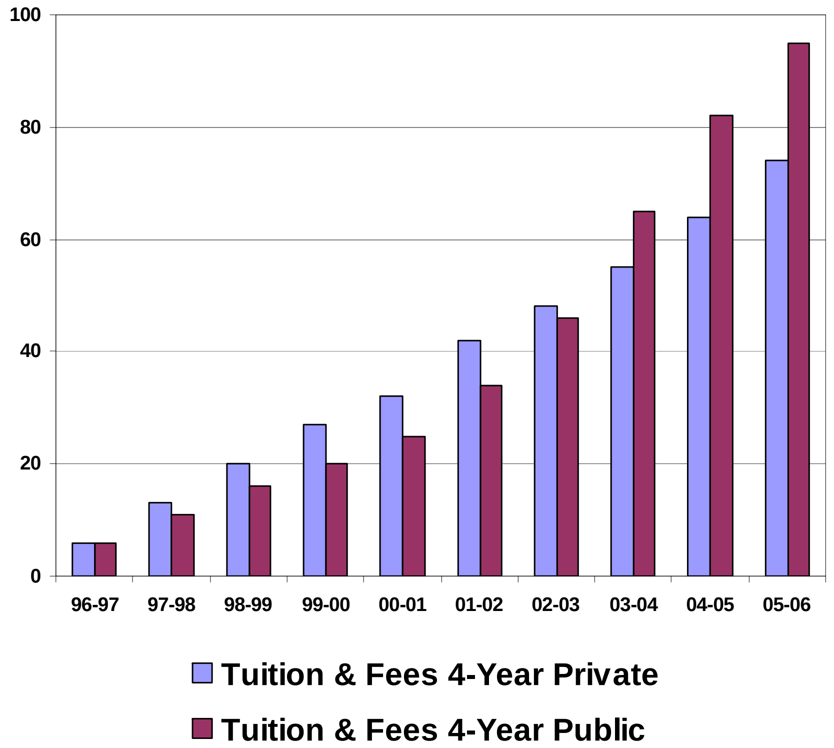
School Panelists

- 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



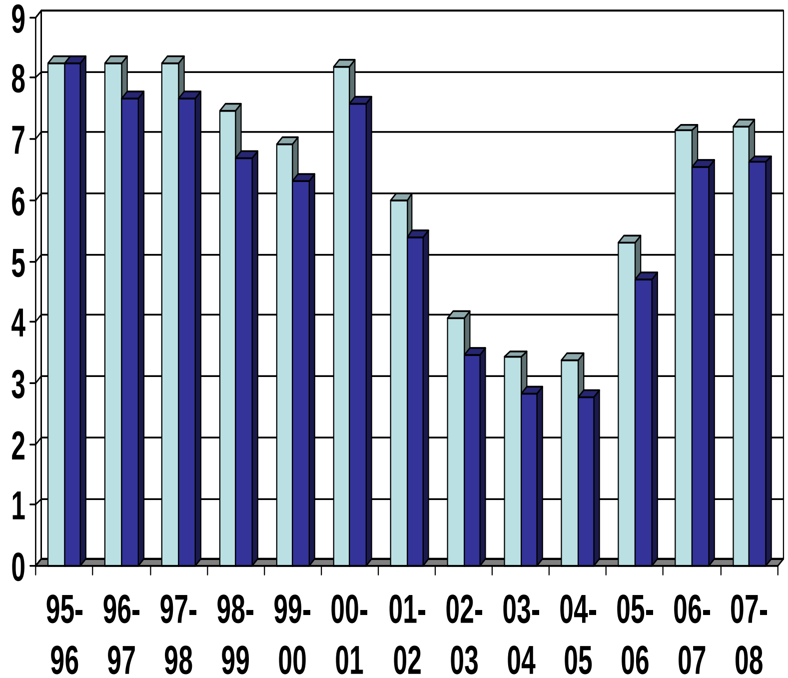
Source: National Center for Education Statistics, U.S. Census Bureau and The College Board. Average per student cost of attendance in current dollars, including tuition, fees and on-campus room and board.

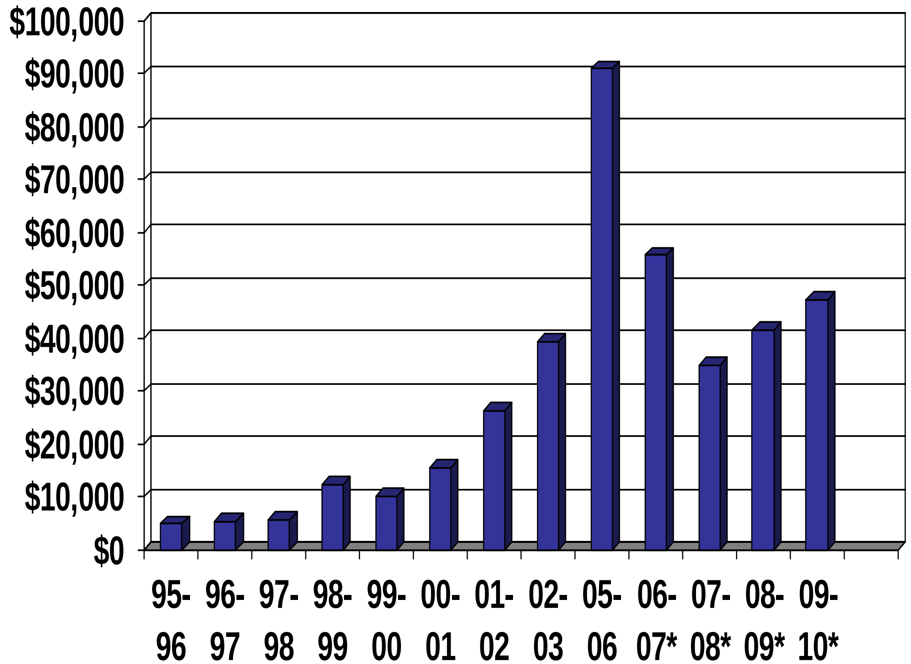
Reality

The History and Evolution of Loan Consolidation

- 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

- 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

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

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

SallieMae®
Champions for Higher Education℠

- 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)

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

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

Market Place Factors

- 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

- 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

- 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

SallieMae®
Champions for Higher Education℠

Repayment Strategy

- 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

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

*Assumes borrower meets all conditions to earn interest rate reduction

SallieMae®
Champions for Higher Education.℠

Repayment Strategy

- *M*onthly 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

- 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
TOTAL		**$517**	**$168,790**

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

Repayment Strategy

Portfolio Management Goal	Repayment Strategy
■ Minimize total repayment costs	■ Select the repayment option with the highest monthly payment and shortest repayment term that can reasonably be afforded. ■ Pay accruing interest (or as much as possible) during periods in which payments are not required (in-school, grace, deferment, and forbearance periods). ■ Prepay loans with highest interest rates first. ■ Ensure all required actions are taken to earn incentive benefits, if available. ■ Consolidate variable rate loans when interest rates are low. ■ Compare current incentive benefits to consolidation benefits <u>before</u> consolidating. ■ Review options for receiving cancellation benefits from employer/federal government.
■ Aggressively repay higher interest rate loans	■ Pay minimum amounts on lower rate loans and pay higher rate loans aggressively. ■ Review repayment plan on lower rate loans to reduce the payments on those loans, allowing for aggressive repayment on higher rate loans. ■ Review postponement options on lower rate loans to reduce or temporarily eliminate payments on those loans, allowing for aggressive repayment on higher rate loans. ■ Do not consolidate higher rate loans, or consider consolidating them separately.
■ Minimize monthly payment (short-term)	■ Review deferment options. ■ 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.) ■ Review forbearance options. (**Caution**: Check with your lender regarding the effect, if any, that using a forbearance may have on incentive benefits!)
■ Minimize monthly payment (long-term)	■ Review extended repayment option if you are eligible. ■ Consolidate eligible loans to obtain maximum repayment term.
■ Minimize payments to multiple companies	■ Consolidate eligible loans with a single lender. ■ Consider obtaining a private consolidation loan with the lender of your federal loans.
■ Manage private loan repayment	■ Pay accruing interest (or as much as possible) during periods in which payments are not required. ■ Consult lender of private debts to review repayment plans available. ■ Consider obtaining a private consolidation loan with the lender of your federal consolidation (or vice versa). (**Tip:** Applying with a cosigner and/or improving your FICO score <u>before</u> consolidating private loans may result in better interest rates.) ■ Consider reducing monthly payments on federal loans to aggressively repay private debts.
■ Manage credit card repayment	■ Consider reducing monthly payment amounts on federal loans to aggressively repay credit cards. ■ Stop/minimize use of credit card until balance is low enough to pay-in-full every month.

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 Student Financial Services, Simmons College

Questions?