The Road to Zero
A Strategic Approach to Student Loan Repayment

Get Started.

Know what you owe.
Know your options.
Define your strategy.
Manage your payments.
Set yourself up for future success.

AccessLex.org
Financial education resources from a nonprofit you can trust℠
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The information in this book is accurate as of March 2017. Repayment plans and their requirements can change. Always check with your servicer to confirm current plan rules and requirements.
Get started.

You have choices. Those choices are yours alone.

Setting yourself up for success on **the road to zero – the path you’ll take to pay your student loans down to zero** – will take strategy and planning. Creating a successful strategy will require an awareness of your financial goals, career goals, personal and family goals—along with an acknowledgement of your current financial situation.

Consider:
- your desired career and anticipated salary
- your desired lifestyle, and even
- retirement planning

... and your financial situation, including:
- immediate expenses you expect to incur, and
- other debt you’re paying off

... when deciding if your goal is to:
- minimize monthly payments to maximize available cash
- aggressively repay to minimize total interest paid
- qualify for Public Service Loan Forgiveness, or
- make things easier by having only one servicer

In a world of high-debt (for some), fast-change and lots of options, you should be strategic in your approach to student loan repayment. Your current situation, your future aspirations and your financial goals are what should together determine your repayment strategy.
Know what you owe.

Visit the National Student Loan Data System for a list of all your federal loans — including loan type, loan amount and loan servicer information.
/nslds.ed.gov or 1-800-4FED-AID

**Click the number to explore each loan in greater detail.**

**Add for total debt**

WHY SO MUCH MORE THAN I BORROWED?

Accrued interest is building on your loans.

When reviewing your loan information on NSLDS, be sure to note the following details about your loans:

- Loan type
- Grace period
- Current loan status
- Outstanding principal
- Outstanding interest
- Interest rate
- Servicer
- Loan forgiveness options

Since your private education loans (if you have them) are not listed on the federal site, check your credit report or ask your financial aid office to identify your private loans, so that you have a complete picture of your student loan debt.

**WE RECOMMEND:**

annualcreditreport.com

for a truly free credit report that does not impact your score to obtain.

You may also have other debt obligations — whether that’s credit card debt, an understanding with a parent about some prior borrowing, car loan, etc. You may also need to take that into consideration as you make some strategic decisions about your repayment plan.
Know what time it is.
Confirm your repayment start date with your loan servicers. **Grace periods** vary based on loan type, and it's important to plan accordingly.

**grace period**
A period of time where you are not yet required to make loan payments.

**GRADUATION**

**IMMEDIATE REPAYMENT**

- Private Loans
- Loans where grace period has been exhausted

**6 MONTHS**

- Federal Loans (Subsidized and Unsubsidized)
- Grad PLUS Loans (technically not a grace period, but a six-month deferment)

**9 MONTHS**

- Perkins Loans

**VARIES**

- All other loans
Know your options.
There’s more than one way to repay.

When it comes to repaying your federal student loans, you have options. Unlike a traditional consumer loan (such as a car loan or a mortgage), student loans allow you to choose the repayment plan that’s the best fit for you.

Choosing the right repayment plan can have a long-term effect on your financial situation, and it’s worth taking the time to compare plans. There’s not one right answer, but there’s likely a right answer for you.

You have options in two major categories:

**Debt-Driven Repayment plans**
and **Income-Driven Repayment plans.**

**negative amortization**
When payments on a loan are less than the interest that accrues. When this happens, the remaining amount of interest owed is added to the loan’s principal.
Debt-Driven Repayment Plans

On these plans, your monthly payment is **not** determined by your income; it is determined by the amount of your total debt, your interest rate and the length of the repayment term you select. Typically, these plans are ideal for higher incomes in relation to their debt, or for those with the financial goal of paying off their debt as quickly as possible.

**Standard Repayment**

Unless you select a specific repayment plan when you start making payments on your federal student loan, your servicer may automatically put you on the Standard Repayment plan.

Under the Standard Repayment plan, the term is ten years, or 120 monthly payments. The payment amount will be the same each month, and must be at least $50.

Your payments under the Standard Repayment plan will be higher than other repayment options, but because you are paying off your loan faster, you’ll also pay less interest over time. There is no negative amortization with the Standard Repayment plan.

**ELIGIBLE LOAN TYPES:**

- **Direct**
- **FFEL**

**THE DEFAULT PLAN**

if you do nothing

**MONTHLY PAYMENT DETERMINED BY:**

- Total debt, interest rate and length of repayment term
- No negative amortization
- Lowest total interest paid
- **Highest monthly payment**

**PAYMENTS OVER TIME:**

**STANDARD 10-YEAR**

- Payment
- 1 2 3 4 5 6 7 8 9 10
- YEARS
Graduated Repayment

If you choose Graduated Repayment, you’ll also have a ten year repayment plan. However, your monthly payments will start lower and increase by designated amounts at designated intervals — typically every two years.

Initial payments will never be less than the amount of interest that would accrue on your loan, and subsequent increases will never be more than three times greater than the prior payment. Payments that are lower initially result in higher overall repayment costs when compared to the Standard Repayment plan. There is no negative amortization under the Graduated Repayment plan.

This might be a good option if your income is low now, but you expect it to increase steadily over time.

ELIGIBLE LOAN TYPES:
✓ Direct
✓ FFEL

MONTHLY PAYMENT DETERMINED BY:
Total debt, interest rate and length of repayment term

🌿 No negative amortization
🍃 Low payments to start
🔥 Payments increase steadily over time

PAYMENTS OVER TIME:
GRADUATED 10-YEAR

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Extended Repayment

You have two options with the Extended Repayment plan: fixed or graduated.

Fixed

Under the fixed option, borrowers have a repayment plan of up to 25 years, or 300 monthly payments, and the payment amount is the same each month. If you’re considering this option, you should be aware that lower payments over an extended timeframe result in higher overall repayment costs when compared to the Standard Repayment plan. There is no negative amortization under the Extended (Fixed) Repayment plan.

Graduated

The graduated option will also give you a repayment term of up to 25 years, or 300 monthly payments. However, payment amounts will vary throughout this period. Under the graduated option, monthly payments start lower, then increase by designated amounts at designated intervals (typically every two years). Be aware that lower payments over an extended timeframe can result in higher overall repayment costs. There is no negative amortization under this plan.
Income-Driven Repayment (IDR) Plans

Income-Driven Repayment (IDR) plans are designed to help you manage your student loan debt by reducing the amount of your monthly payment. The monthly payment for these plans is based primarily upon your income, family size and state of residency, and you may qualify for loan forgiveness after 20 or 25 years of repayment (depending on the plan and your loan balance). Most federal loans are eligible for at least one Income-Driven Repayment plan. IDR plans include:

- Income-Contingent Repayment (ICR)
- Income-Based Repayment (IBR)
- Pay As You Earn (PAYE)
- Revised Pay As You Earn (REPAYE)

Is an IDR plan right for you?
If your student loan debt is higher than your discretionary income, you may benefit from an IDR option.

Financial hardship
To be eligible for the Income-Based and Pay As You Earn Repayment plans, you must demonstrate a partial financial hardship: the annual amount due on your loan repayment must exceed either 10 or 15 percent (depending on your plan) of the difference between your adjusted gross income and 150 percent of the poverty guideline for your household size and state of residency.

How to apply
To apply for an Income-Driven Repayment plan, visit StudentLoans.gov or request an application from your servicer.

IDR eligibility
To maintain your eligibility for all IDR plans, you will need to re-certify your application annually or your payment will default to the Standard Repayment plan. Remember that any amount forgiven is subject to taxation during the year of forgiveness, so you may want to consult a tax accountant for more information.
All plans eligible for PSLF

Income-Contingent (ICR)
- Payment equals lesser of 20 percent of discretionary income or a 12-year fixed payment (income adjusted)
- Remaining debt forgiven after 25 years of qualifying payments
- No interest subsidy.

New Income-Based (New IBR)
- Payment equals 10 percent of discretionary income
- Remaining debt forgiven after 20 years of qualifying payments
- Any unpaid interest is capitalized (subsidy available for the first three years on subsidized loans only — as long as you remain eligible and stay on this plan).

Income-Based (IBR)
- Payment equals 15 percent of discretionary income
- Remaining debt forgiven after 25 years of qualifying payments
- Any unpaid interest is capitalized (subsidy available for the first three years on subsidized loans only — as long as you remain eligible and stay on this plan).

Pay As You Earn (PAYE)
- Payment equals 10 percent of discretionary income
- Remaining debt forgiven after 20 years of qualifying payments
- Unpaid interest is capitalized (subsidy may be available for the first three years on subsidized loans only — as long as you remain eligible and stay on this plan).
- BONUS: Cap on unpaid interest that can be capitalized is limited to 10 percent of your original loan balance when you entered PAYE.

Revised Pay As You Earn (REPAYE)
- Payment equals 10 percent of discretionary income (no cap)
- Remaining debt forgiven after 20 years (undergrad) or 25 years (grad) of qualifying payments
- Any unpaid interest is capitalized (full subsidy available for the first three years on subsidized loans only, plus 50 percent of the interest on subsidized loans after the first three years, plus 50 percent of the interest on unsubsidized loans during any year — as long as you remain eligible and stay on this plan).
# Federal Loan Repayment

## Loan Types
- **Direct Loans**
- **Consolidation loans that repaid Parent PLUS are eligible**
- New borrower on or after 7/1/2014 (with no outstanding balance on any prior Direct or FFEL loans)
- New borrower as of 10/1/2007 and Must have received a Direct Loan disbursement on or after 10/1/2011
- Any borrower with eligible federal student loans

## Eligible Borrowers
- Direct Loan borrowers
- Any borrower with eligible student loans
- Any borrower with eligible federal student loans

## % of Discretionary Income
- **Income-Contingent (ICR)**
  - The lesser of 20% of discretionary income or a 12-year fixed percent (adjusted according to the consumer price index)

- **NEW Income-Based (New IBR)**
  - Generally 10% of discretionary income
  - Never more than the 10-year Standard Repayment amount

- **Income-Based (IBR)**
  - Generally 15% of discretionary income
  - Never more than the 10-year Standard Repayment amount

- **Pay As You Earn (PAYE)**
  - Generally 10% of discretionary income
  - Never more than the 10-year Standard Repayment amount

- **Revised Pay As You Earn (REPAYE)**
  - Generally 10% of discretionary income
  - No cap on the monthly payment amount

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Source: Department of Education — Federal Student Aid, Repayments
Loan Consolidation

Loan consolidation might be the right option for you, but there are a few things to consider. First, know that if you have multiple loans but they are all with the same servicer, then you will only have one bill. No need to consolidate to make that happen! But, if you have multiple loans with different servicers, and you’re looking for a way to pay just one bill — or if you have FFEL loans and you are interested in PSLF — consolidation may be what you need.

In general, newly issued Federal Direct Consolidation Loans:

- Are made through the U.S. Department of Education, which serves as the lender for all new Federal Direct Consolidation Loans
- Are available after you graduate, leave school, or drop below half-time enrollment
- Allow you to choose your servicer
- Allow you to choose which of your federal loans you want to consolidate
- Allow you to prepay your loan at any time without penalty
- Carry an interest rate based on the weighted average of the interest rates on the loans being consolidated, rounded up to the nearest one-eighth of one percent
- Have repayment terms up to 30 years
- Are not available to borrowers in default
- May not include Parent PLUS loans (PLUS loans made to parents cannot be transferred to the student via consolidation)
- Cannot include private education loans
Consolidation can simplify your loan portfolio, may help you with Public Service Loan Forgiveness (PSLF) eligibility and may help reduce your monthly payment amount — but it will also typically increase the overall amount you will pay over the life of the loan, as well as the length of time your loan is in repayment. More time to pay means more interest paid.

As a result, carefully consider what consolidation will mean to you financially in the short- and long-term. Consider the following questions before consolidating:

- Will consolidation result in a higher interest rate than I currently pay?
- Will consolidation result in the loss of a grace period?
- Will I lose any borrower benefits offered with the original loans?
- How much more will I pay over the life of a consolidation loan than I will if I don’t consolidate?
- Will I lose the subsidized status — or any loan forgiveness options — of any Perkins loans that may be included in the consolidation?

You should know the pros and cons of consolidation before agreeing to this type of loan. Also, if you decide that consolidation is in your best interest, keep detailed financial records and document the entire application process.

To learn more about federal loan consolidation or to start the process, go to studentloans.gov/consolidation.
Federal Public Service Loan Forgiveness (PSLF)

Public Service Loan Forgiveness is not a repayment plan, but an option you can work toward while utilizing an Income-Driven Repayment plan. The PSLF program was established by the College Cost Reduction and Access Act of 2007 to encourage individuals to take and continue to work full time in public service jobs. Under this program, federal student loan borrowers may qualify for forgiveness of the remaining balance of their Federal Direct Loans after making 120 qualifying payments on those loans while employed full-time by certain public service employers.

Where do I apply?
Track your progress toward qualifying forgiveness by submitting an Employment Certification Form with the U.S. Department of Education. This form is not required; however, it is advised that you submit this form to the Department annually (and when switching employers). The official application for PSLF will be made available by the Department prior to October 2017. The current Employment Certification Form and instructions for completing it are available at studentaid.ed.gov/publicservice.

Will the forgiven amount be taxable?
No, the forgiven amount is not subject to federal tax under current law.

More information about PSLF – including information on qualifying employers, qualifying payments, and any program updates – can be found at studentaid.ed.gov/publicservice.

Heads up, PSLF repayers!

If you are pursuing PSLF, you should know that consolidation restarts your PSLF payment schedule. By only consolidating some of your loans, you’ll avoid losing out on the “PSLF time credit” for your previous payments.

NOTE: Payments under the 10-year Standard Repayment plan — and any other Income-Driven Repayment plan where payments are at least equal to the monthly payment amount that would have been required under the 10-year Standard Repayment plan — are considered eligible payments for PSLF. Keep in mind, under a Standard Repayment plan, a borrower’s loan obligation typically will be repaid in full over the course of the 10-year repayment plan, and therefore generally would not have an outstanding balance remaining to forgive. Employment at a qualifying employer must be maintained at the time of forgiveness.
Do you qualify for

**PSLF** Federal Public Service Loan Forgiveness?

**TO QUALIFY, YOU NEED:**  
☑️ ELIGIBLE LOANS  ☑️ ELIGIBLE PAYMENTS  ☑️ AN ELIGIBLE JOB

☐ ELIGIBLE LOANS

Only Federal Direct Loans not in default are eligible for PSLF. If you have loans under the Federal Family Education Loan Program, you must consolidate those loans into a Federal Direct Consolidation Loan for those loans to be eligible for this forgiveness. Once consolidated, these loans must be in an eligible payment plan to be eligible for PSLF.

☐ ELIGIBLE PAYMENTS

Make 120 on-time, full, scheduled monthly payments under one of the eligible repayment plans listed below. Payments do not need to be consecutive, but only payments made after October 1, 2007 qualify.

**ELIGIBLE PLANS**

- Income-Based Repayment (IBR)
- Income-Contingent Repayment (ICR)
- Pay As You Earn (PAYE)
- Revised Pay As You Earn (REPAYE)
- 10-Year Standard Repayment Plan

☐ AN ELIGIBLE JOB

Be employed full time by a federal, state, local or governmental agency, or a nonprofit, tax-exempt organization under section 501(c)(3) of the Internal Revenue Code, or for a private not-for-profit employer that provides certain specified public services.
Define your strategy.

Now that you know more about the different repayment plans and options available to federal student loan borrowers, it is time to define a repayment strategy that works for you.

Begin by asking yourself a few questions:

What types of loans do you have?
FFEL or Direct or both?
(Loan type can affect options)

When did you borrow your loans?
(Date of borrowing can also affect options)

What repayment plans are available to you?

What other debt obligations do you have?

What is your career plan?
AccessLex Student Loan Calculator

With the help of our Student Loan Calculator, you can explore the estimated payments under each of the plans available to you and make a decision that is truly best for your situation and your goals.

**Standard Repayment Plan**

You will pay the same fixed payment amount every month for up to 10 years. The minimum monthly payment is $50, but your actual payment amount and repayment period will depend on the total amount owed. Each payment includes both interest and principal. This plan has the highest initial monthly payment, but the lowest overall cost because your total interest paid will be lower than any other repayment plan. Your loans will be placed in this plan if you do not choose an alternative repayment plan.

- **Amount Borrowed**: $150,000
- **Interest Rate**: 5.84%
- **Repayment Estimates**:
  - Monthly Payment: $1,653
  - Total Interest Paid: $48,394
  - Total Amount Paid: $198,394

AccessLex.org/calculator

Bookmark and visit throughout your educational journey!

As you go through the different repayment options, also consider the following:

- **Based on the amount you have borrowed and your projected career path, is there anything else about your future you want to consider today?** (NOTE: You can always change repayment plans.)
- **Do you want/need to consider consolidation to be eligible for a different repayment plan?**
- **How will changes to your employment, marital status, family size and/or tax filing status affect your repayment strategy?**
Manage your payments.

No matter which plan you choose to meet your repayment goals, it’s important to proactively manage your payments. The best way to do so is to choose the right plan for your financial success. However, if you have difficulty meeting your student loan payments along the way, remember that you have options.

The first step is to reach out to your student loan servicer as soon as possible. Your servicer will manage all of the billing associated with your student loan, so you’ll make payments to them directly. If you need help making your payments, your servicer can work with you to come up with a solution.

Depending on your situation, you may be eligible for a deferment, or forbearance.

Deferment

When your loan is deferred, repayment of the principal and interest of your loan is temporarily suspended. If you choose to defer your student loan, you’ll remain in good standing on your loan obligation — i.e., not delinquent or in default.

Deferments are not automatic, so you’ll need to submit a request to your loan servicer. If you’re enrolled in school at least half time and you would like to request an in-school deferment, contact your school’s financial aid office as well.

Deferment application forms should be available on your loan servicer’s website. If you do not know which entity services your loan(s), visit the National Student Loan Data System at NSLDS.ed.gov to find out.

The federal government may pay the interest on your loan during a period of deferment if it is a Federal Perkins or subsidized loan, but it will not do so for unsubsidized or PLUS loans. In those cases, you can pay the interest during deferment or you can allow the interest to accrue (accumulate). If you decide not to pay the interest on your loan during deferment, it will be capitalized (added to your principal balance), and the amount you pay in the future will be higher.
Forbearance

If you have difficulty making your scheduled loan payments, but you don’t qualify for a deferment, your loan servicers may be able to grant you a forbearance.

With a forbearance, you may be able to stop making payments or reduce your monthly payment for up to 12 months.

Before pursuing forbearance, it may make more financial sense to pursue IDR plans. Remember, your payments are based on your income and family size and a qualifying payment could be $0. That zero-dollar payment counts toward the years of forgiveness for that given repayment plan. Remember, you must complete an annual recertification for IDR plans.

The Extra Money Question

If you find yourself in a situation where you have a little extra money, consider the following in conjunction with your personal situation and future financial goals. Should you:

- Contribute to your emergency fund?
- Pay off your student loan(s)?
- Pay off your credit card debt?
- Put money toward retirement?
- Put money toward your mortgage?
- Save for your child(ren)’s college fund?
Federal Loan Prepayment

If you choose to make extra payments on your student loans, you can reduce the interest that accrues on your outstanding balance and reduce the overall amount you’ll pay on your loan — without penalties. Just like regular payments, all prepayments are processed through your student loan servicer.

To find your servicer, visit the National Student Loan Data System at NSLDS.ed.gov.

Your servicer will apply your payments toward any outstanding charges, collection costs, fees and interest before applying funds to the outstanding principal. Once those costs are covered, you can choose to have your prepayment applied evenly across all loans (if you have more than one), or have the entire amount dedicated to one loan.

- Consider the benefit of targeting prepayments to the principal of your most expensive loan first (typically, those with the highest interest rates).
- Be strategic. Unless you offer specific direction, your prepayment will be applied to your future monthly payments and will not automatically pay down your principal.

If you’d like to prepay your loans, contact your servicer and ask questions such as:

- What is the current outstanding balance of my loan? (This is particularly important if you are making a lump sum prepayment.)
- Can I include a prepayment with my regular monthly payment, or should I send it as a separate payment?
- What is the best way to specify how my prepayment should be applied?

Check back with your federal student loan servicer in a week or so to ensure the prepayment was applied properly, and correct any prepayment issues if necessary. Keep records of all of your communications with your servicer, and of any prepayments you make.
Set yourself up for future success.

Regardless of which repayment plan you choose when you enter repayment, you can change to a different one if it better aligns with your personal and financial goals.

Remember, you have choices. And to ensure that you are setting yourself up for future success, review your repayment choices at strategic checkpoints along the way.

Life Event Checkpoints
Your life will change, so make sure you review your options when any of the following life events happen:

- Change in job
- Change in salary (up or down)
- Change in relationship status
- Change in family size

Yearly Checkpoints
Even if you don’t experience any life changes, it’s important to conduct a financial wellness check each year to make sure you are still on track to achieve your financial goals.

- **Income-Driven Repayment plans:** Complete and submit the appropriate documentation to verify your family size, tax filing status and income each year.

- **Public Service Loan Forgiveness:** Complete and submit the Employment Certification form each year to ensure that you are on the right track to receive PSLF.
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AccessLex.org

We’re here. To help you get there.

AccessConnex™

A Free Student Loan Helpline

On-demand, one-on-one loan repayment counseling and other financial education information for graduate and professional students.

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