

MCLE FORM 1: Recordkeeping Form (Do Not Return This Form to the Bar)

Instructions:

Pursuant to MCLE Rule 7.2, every active member shall maintain records of participation in accredited CLE activities. You may wish to use this form to record your CLE activities, attaching it to a copy of the program brochure or other information regarding the CLE activity.

Do not return this form to the Oregon State Bar. This is to be retained in your own MCLE file.

Name:		Bar Number:	
Sponsor of CLE Activity: Oregon New Lawyers Division			
Title of CLE Activity: Money Matters; Managing Student Loans & Making Smart Financial Decisions		Program Number: 1602*478	
Date: 10/24/2018	Location:		
<input checked="" type="checkbox"/> <i>Activity has been accredited by the Oregon State Bar for the following credit:</i> ___ General ___ Prof Resp-Ethics ___ Access to Justice ___ Abuse Reporting 1 Practical Skills 1 Pers. Mgmt/Bus. Dev.*	<input type="checkbox"/> Full Credit. <i>I attended the entire program and the total of authorized credits are:</i> ___ General ___ Prof Resp-Ethics ___ Access to Justice ___ Abuse Reporting ___ Practical Skills ___ Pers. Mgmt/Bus. Dev.*	<input type="checkbox"/> Partial Credit. <i>I attended _____ hours of the program and am entitled to the following credits*:</i> ___ General ___ Prof Resp-Ethics ___ Access to Justice ___ Abuse Reporting ___ Practical Skills ___ Pers. Mgmt/Bus. Dev.*	

***Credit Calculation:**

One (1) MCLE credit may be claimed for each sixty (60) minutes of actual participation. Do not include registration, introductions, business meetings and programs less than 30 minutes. MCLE credits may not be claimed for any activity that has not been accredited by the MCLE Administrator. If the program has not been accredited by the MCLE Administrator, you must submit a Group CLE Activity Accreditation application (See MCLE Form 2.)

Caveat:

If the actual program length is less than the credit hours approved, Bar members are responsible for making the appropriate adjustments in their compliance reports. Adjustments must also be made for late arrival, early departure or other periods of absence or non-participation.

*Personal Management Assistance/Business Development. See MCLE Rule 5.12 and Regulation 5.300 for additional information regarding Category III activities. Maximum credit that may be claimed for Category III activities is 6.0 in a three-year reporting period and 3.0 in a short reporting period.

Student Loans and Your Budget

The key to paying off your loans



© 2018 Janay Haas

How much is your income?

How much are your expenses?



**“She’s so fine, there’s no telling
where my money went . . .”**

--Robert Palmer, “Simply Irresistible”

First things first . . .

- Health care needs
- Food
- Shelter
- Everything else



Prioritizing the “everything else”

- Creating your budget: do you spend money for these things every month?

- **heat and lights
- **renter’s insurance
- **telephone
- **internet access
- **food
- **child support
- **gas or other transportation costs

What are your other monthly expenses?

Americans under the age of 29 underestimate their living expenses by an average of

43 %

Why?

- They don't factor in **day-to-day** expenses such as designer coffee, parties, dining out, smoking
- They don't factor in **emergencies** (car problems, medical, travel, etc)
- They don't factor in **expenses that don't occur monthly**

A BETTER WAY—

CREATE AN ANNUAL BUDGET

with an annual budget, you are likely to anticipate your expenses within a


3 % margin of error

Where to start . . .

- Commit to listing every single thing on which you spend money for a two-week period: cash, credit card, online shopping, even food stamps if you use them
- Spend some time thinking about those non-monthly expenses—don't let them creep up on you! Look in your closets, your kitchen and bathroom cabinets, your car, and anywhere else where you have "things" you use and need to replace from time to time
- Think about likely one-time expenses in your near future—does your car need new tires? Will you need to buy a bus pass or replace your passport? Pay for your PLF coverage?

Now that you know what your real expenses are going to be . . .

- Prioritize them again.
- Make sure that, once you have paid for food, shelter, necessary meds, and the means to get to your job, PAYING BACK YOUR STUDENT LOANS is next in line.



Loan Repayment Options

Federal loans

Caveat

Different types of loans have different interest rates, grace periods, and coverage. Terms in a single loan type can change, and have changed in different years. Repayment options are not the same for all types of loans or all vintages of a single loan type.

Five types of federal loan programs

1. Stafford loans—subsidized, but not for grad students
2. Federal Family Education loans (FFEL)—no more new loans; subsidized and unsubsidized
3. Direct loans—subsidized and unsubsidized
4. PLUS loans—unsubsidized, credit check required
5. Perkins loans—subsidized only

Alternatives to 10-year standard plan

- Graduated repayment—10 years, increasing amounts
- Income-based repayment—10% of discretionary income, 20-25 years
- Income-contingent repayment—12 years or 20% discretionary income for 25 years
- Pay As You Earn/Revised Pay As You Earn—10% of discretionary income, 25 years
- Public Service Forgiveness—debt ends after 10 years

Night of the Living Debt



Loan consolidation

- One opportunity per loan to consolidate
- Consolidating federal and private loans makes all the loans private, eliminating borrower's rights to other repayment methods
- Not available if wages are being garnished
- Reduces monthly payments but lengthens payment periods, usually with increased interest and stiff collection fees
- Consolidated loans may be ineligible for public service forgiveness

Loan forbearance

- No right to forbearance; lender has discretion
- Permits borrower to make partial or no payments for a short period of time for good cause
- All interest during time of forbearance is capitalized.
- Most borrowers who choose forbearance end up in default again within 2 years.

Loan Rehabilitation

- Perkins loans: remove loan from default by making 9 timely consecutive payments
- FFEL and direct loans: 9 timely payments in 10 months.
- Payment amounts must be affordable
- Collection fees are not capitalized.

Loan settlement or discharge

- In rare cases, lender will agree to settlement, eliminating some interest and principal (FFEL, direct, Perkins). Taxable event. Collection efforts cease; balance of debt remains on credit records.
- Discharge (administrative) of balance for death or permanent severe disability (lower standard for VA eligibles)

Discharge through bankruptcy— undue hardship

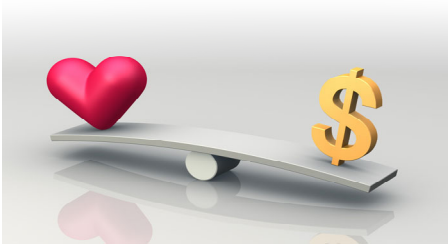
- Ch 7: “Brunner standard”—filed in good faith; inability to pay in full while maintaining minimal standard of living; inability to pay likely to persist into foreseeable future. *Brunner v New York Higher Education Services Corp.*, 831 F2d 395 (2d Cir 1987)
- Ch 13: restructure debt, make partial payments for 3-5 years. Interest may be deferred but not eliminated.

Defenses to collection

- *intentionally steering borrowers to wrong repayment program
- *insisting on payments that are not affordable
- *posing as government
- *misrepresenting borrowers’ rights
- *Truth in Lending violations
- *state and federal unfair collection practices generally
- *unfair trade practices under state and federal laws



Financial Therapy



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Money Matters

Managing Student Loans and
Making Smart Financial Decisions
October 24, 2018

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Money Matters

What does the word MONEY
mean to you ... in just one word?

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American Psychological Association

2014 Stress in America Survey:

Money is consistently among the top sources of stress for Americans ... year over year.

apa.org/helpcenter/money-family.aspx

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American Psychological Association

2014 Stress in America Survey:

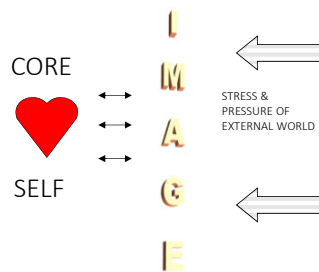
36 percent of Americans are uncomfortable talking about money

18 percent say money is a taboo subject in their families.

apa.org/helpcenter/money-family.aspx

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CORE SELF & EXTERNAL WORLD



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Words About Money

The Bible offers more than 2,000 insights about what is an appropriate relationship with money – more than any other single topic!

The Financial Wisdom of Ebenezer Scrooge
Klontz, Kahler & Klontz

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Words About Money

For the *love* of money
is the root of all evil...

1 Timothy 6:10

According to this famous passage from the Bible, the problem isn't money. The problem is in our relationship to money.

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What Is Financial Therapy?

“Financial therapy is a process that helps an individual or couple become aware of their relationship with money and how it is used or misused.”

Survey Participant – Mental Health Professional
What Is Financial Therapy? Archuleta, Burr, Dale (2012)

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What Is Financial Therapy?

"I think financial therapy brings the idea forward that today's relationships, close personal relationships, all involve money."

Survey Participant – Mental Health Professional
What Is Financial Therapy? Archuleta, Burr, Dale (2012)

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What Is Financial Therapy?

"The integration of cognitive, behavioral, emotional, relational, and economic aspects that promote financial health."

Financial Therapy Association (2012)

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What Is Financial Therapy?

Case Study from the Archive:

Married Man With Credit Card Debt

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Stages of Change



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Exploring Motivation for Change

1. CONCERN

Pre-Contemplation & Contemplation

- Is there anything in your personal finances that worries you?
- Who are you comfortable talking with about this money stuff?
- What do you think will happen if you don't make any changes?

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Exploring Motivation for Change

2. PROBLEM RECOGNITION

Contemplation

- What makes you think the situation with your personal finances is a problem?
- In what ways have you or other people been impacted by the way you handle money?
- How would your life be different if you didn't have difficulties with your finances?

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Exploring Motivation for Change

3. INTENTION TO CHANGE

PREPARATION

- What reasons do you see for making a change with your personal finances?
- If you were 100% successful, what would be different in your life?
- What are the advantages of making this financial change now?

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Exploring Motivation for Change

4. OPTIMISM

PREPARATION and ACTION

- What specific steps will you need to take to be more successful with money?
- What is encouraging you to make these changes at this time?
- If you decide to change, what support will you need from others?

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Household Income & Expenses

The most valuable tool in Financial Therapy is simply developing a true picture of household income and expenses.

For some people this process is relatively easy, for others this process can be very challenging...

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Household Income & Expenses

SNAPSHOT

A simple, hand-written picture of average monthly finances:

Expenses on the front side

Income on the backside

Income – Expenses = Net

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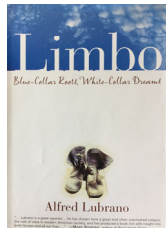
Household Income & Expenses

SNAPSHOT on the Internet:

<https://bhfarr.com/wp-content/uploads/2017/03/SNAPSHOT-Income-Expenses-04-2013.pdf>

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Economic Class And Culture



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Economic Class And Culture

This book is a step toward understanding what people gain ... and what they leave behind ... as they move from the working class to the middle class.

LIMBO by Alfred Lubrano, p1

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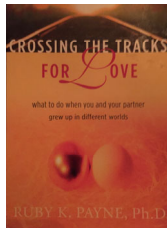
Economic Class And Culture

The term class itself is tricky: People would rather talk about sex than money. And they would rather talk about money than class.

LIMBO by Alfred Lubrano, p4

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Economic Class And Culture



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Economic Class And Culture

Regardless of class, the relationship with money is critical for individuals, couples and families:

- Basic survival and security
- Economic quality of life
- Status in community
- Future prospects

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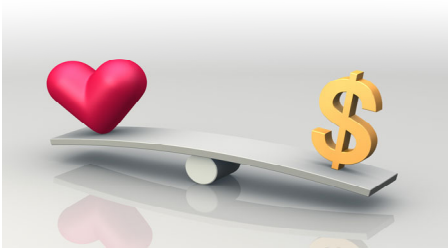
Thank You

Please contact me if you have any questions...

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Financial Therapy



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Rule #2: PLAN

<https://i.imgur.com/CcEVQAV.jpg>



Rule #3: PARTICIPATE

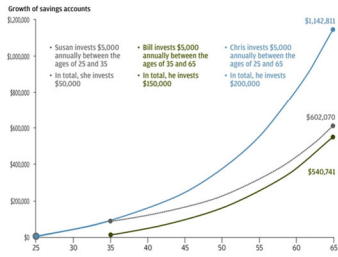
- .Account types and maximum contributions
- .Account holdings



What do you do?

- 1) Start participating in the market early, because market participation allows you to take advantage of compounding.
- 2) Save as much as possible.
- 3) Stay diversified.
- 4) Stay the course.

“He who understands [compound interest], earns it; he who doesn’t, pays it.” - Einstein



How to Save

First, examine income and spending. These activities occur in the present.

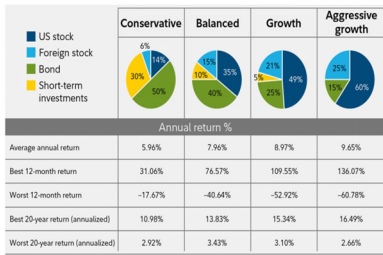
Second, look towards financial planning and investment. These focus on the future.

$$\text{Adj. Gross Income} = \text{Spending} + \text{Savings} + \text{Taxes}$$

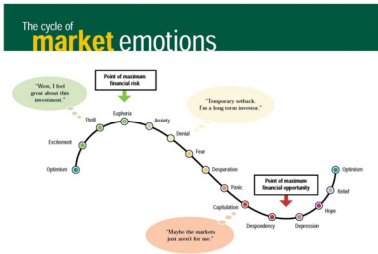
BUDGET GUIDELINES

Category/Description	\$	Percent
	\$ Amount Spent	Guideline Actual %
SAVINGS/INVESTMENT 5-10%		
None for periodic expenses/emergencies	\$0	5-10%
HOUSING 20-30%		
1st & 2nd Mortgages, Rent, Homeowners Ins., Property Taxes, Assoc. Dues, Repairs/Improvements	\$0	20-30%
UTILITIES 3-7%		
Gas, Electricity, Water, Trash/Sewer and Phone	\$0	3-7%
FOOD 15-20%		
Groceries, Work/School, Meals Out, Pet Food	\$0	15-20%
TRANSPORTATION 6-20%		
Car Loan Payments, Gas/Oil, Repairs, Insurance, Parking, etc. Registration/Smog	\$0	6-20%
LIFE/MEDICAL/DISABILITY 2-8%		
Life/Medical/Disability Premiums, Prescriptions, Dr. Bills	\$0	2-8%
CLOTHING 2-4%		
All clothing purchases and alterations	\$0	2-4%
LOAN PAYMENTS 15-20%		
Credit Cards, Pkgs Loans, Student Loans	\$0	15-20%
PERSONAL 10-15%		
Child Care, Child Support, Personal Allowances, Laundry/Dry Cleaning	\$0	10-15%
ENTERTAINMENT 10-15%		
Cable TV/Videos/Movies, Sports, Hobbies, Vacation	\$0	10-15%
MISCELLANEOUS 0-10%		
Church/Offering, Gifts, Pet Care, Taxes, Estimated and Prior	\$0	0-10%

Stay Diversified



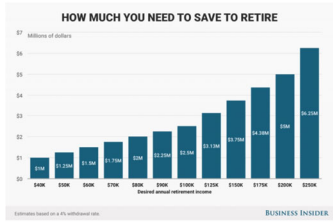
Stay the Course



How do you do it? Plan.

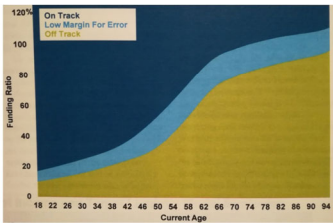
- 1) **Discover where you're at.** Compile info on YOUR GOALS and their cost to understand your future SPENDING. Compile info on YOUR ASSETS, look at rates of current and future SAVING. Compile info on YOUR LIABILITIES and interest rates. Is your debt growing faster than your assets?
- 2) **Get good advice.** Ask questions; seek knowledge; study. Hire a professional financial planner. Invest in your retirement plan.
- 3) **Implement the plan.** Create accounts, if you don't have them. Diversify across all accounts. Follow a spending plan. Pay off debt.
- 4) **Track progress.** Revisit your plan. Reallocate assets to maintain diversification. Make a new plan as life changes (e.g. take care of children or parents; preparing for retirement).

Setting Your Retirement Goal



To test your retirement plan, calculate your Funding Ratio.

Funding Ratio = Current Net Worth / Total amount needed



Sample Calculations

Funding Ratio = Current Net Worth / Total amount needed

Has the 40 year old from our Net Worth Calculation saved enough for retirement?

Funding Ratio = Current Net Worth / Total amount needed

Funding Ratio = \$181,000 / \$1,250,000 = 14.5%

14.5% < 22% (the percent saved a 40 year old needs for retirement)

They are currently off track for retirement

What if they had no law school debt?

Funding Ratio = Net Worth excluding Ed. debt / Total amount needed

Funding Ratio = (\$181,000+\$118,700) / \$1,250,000 = 24%

24% > 22%

Their retirement plan could succeed!

Mortgage Lenders Want Business

- The conservative guidelines put into place after 2009 have eroded. For example, many lenders permit borrower's Housing portion of income to be 45% instead of 35%.
- White-collar professionals receive better offers. One example is "Physician Mortgages."
 - Benefits to you: Low or Zero Down Payment (0-10% is typical); No Private Mortgage Insurance; Student loan debt not counted against you; Higher loan limits are available
 - Benefits to the banks: A future high income earning client; Some banks require you to have a checking or savings account with them; Rate and fees on these loans will be higher than loans that require 20% down and years in current employment position
- Oregon: Flagstar, US Bank, TIAA, BBVA/Compass Bank, Laurel Road, Guaranteed Rate, SoFi
- WA: see above, plus Northpointe Bank and BMO Harris Bank

Looking Good for a Lender

- A mortgage lender looks at your monthly, not annual, income and expenses. This means you likely want to minimize your loan payment before applying for a mortgage.
- Lender's desires change depending on whether you want a Conforming mortgage (< \$453,000) vs. a Jumbo Loan vs. a Construction Loan
- Gifts and co-buyers are welcome. For gifts over \$14,000 the giver files IRS Form 709.
- Portland Housing Center offers great classes. PHC has a range of loans and grants available to first-time homebuyers.

Documents to Create a Conforming Mortgage

- During the application process, each co-buyer must provide:
 - Two years of W-2s (from all jobs)
 - Your last two paystubs (from all jobs)
 - Your last two bank statements (from all banks)
 - Gift Letter (if receiving a gift).
 - The mortgage lender will want to see one or two recent bank statements from the giver.
 - The mortgage lender will want the gift wired directly to itself, not passing through you.
 - The mortgage lender may have a standard gift letter to sign.
 - Under HUD rules, gifts must be from biological relatives to qualify toward the purchase.
- The lender will use these documents to prepare a Loan Estimate for you. This is a Federally-required form that lays out important information about the loan you applied for. The lender sends you a Loan Estimate within three business days of receiving your application.

To Close A Mortgage

- Mortgage lender needs the **Sale Contract**. This is usually prepared by realtor. There's one in the **Oregon Real Estate Deskbook**, Chapter 16: Earnest Money Agreements. See Forms 16-1, **Mandatory Lead Disclosures** and 16-2, **Earnest Money Agreement to Purchase and Sell Residential Real Estate**.
- Mortgage lender needs a completed **Appraisal** of the property. This is done for the benefit of the lender, and the lender may want to use their appraiser
- Title Insurance Agency needs a complete **Title Report** showing the plot and its ownership, easements, liens, and unpaid taxes.
- Buyer needs completed **Inspections**, unless waived
- You provide a **Home Insurance Quote** to the Title Company. The Title Company uses this to prepare your **Initial Escrow Statement***
- You receive a **Closing Disclosure*** from your lender 3 business days before closing. It lists all final terms of the loan you selected, final closing costs, and the details of who pays and who receives money at closing.
- At closing, you'll sign the **Promissory Note** describing the amount, interest rate, payment dates, duration of repayment, etc. You'll also sign a **Security Instrument** putting up the house as security. It grants the lender or servicer the right to foreclose for nonpayment.

What's Your Best Education Loan Repayment Option?

<https://studentloanhero.com/calculators/>

SNAPSHOT: Monthly Income & Expenses

Date: _____

EXPENSES

Monthly Averages

**Money for Emergency Fund / Savings / Investments \$ _____

Rent/Mortgage/Property Tax/Home Insurance \$ _____

Home Repairs and Maintenance (Monthly Average) \$ _____

Auto Loan Payments and Auto Insurance \$ _____

Auto Repairs and Maintenance (Monthly Average) \$ _____

Gasoline/Parking/Public Transportation \$ _____

Mostly Fixed Expenses

Electric \$ _____ NatGas \$ _____ Cable \$ _____ Internet \$ _____

Water \$ _____ Garbage \$ _____ Phone \$ _____ Cell \$ _____

Total Utilities \$ _____

Groceries and Household Supplies (Average) \$ _____

Meals Out/Snacks/Coffee (Average) \$ _____

Tobacco/Alcohol (Average) \$ _____

Self Care (Haircut, Massage, Manicure, Cosmetics, Etc) \$ _____

Entertainment/Recreation/Hobbies/Sporting Activities \$ _____

Clothing Purchases and Dry Cleaning (Monthly Average) \$ _____

Variable Expenses

Dependent Care (Expenditures for Children and/or Pets) \$ _____

Medical/Dental/Therapy/Prescriptions (Monthly Average) \$ _____

Insurance Premiums (Medical, Disability, Life) \$ _____

Vacations/Travel (Monthly Average) \$ _____

Gifts to Others/Charity (Monthly Average) \$ _____

What else? _____ \$ _____

What else? _____ \$ _____

Periodic Expenses

Monthly Living Expenses \$ _____

Personal Debts (from worksheet)

Credit Cards Monthly Payment \$ _____

Student Loans, Lines of Credit and Other Debts Monthly Payment \$ _____

Total Monthly Personal Debt Payments \$ _____

Debt Payment

TOTAL MONTHLY EXPENSES \$ _____

(Living Expenses + Debt Payments)

INCOME

Monthly Averages

#1 Take-Home Salary After Taxes and Deductions	\$ _____
#2 Take-Home Salary After Taxes and Deductions	\$ _____
Health Savings, Childcare and Other 'Pass Through' Dollars	\$ _____
Commissions/Tips (Average)	\$ _____
Investments/Trusts (Dividends, Interest, Rent, etc)	\$ _____
Pension/Retirement/Social Security	\$ _____
Child Support/Alimony	\$ _____
What else? _____	\$ _____
What else? _____	\$ _____
TOTAL MONTHLY INCOME	\$ _____

COMPARE INCOME & EXPENSES

AVERAGE MONTHLY INCOME \$ _____

Subtract AVERAGE MONTHLY EXPENSES \$(_____)

NET \$ _____

If your income is *less* than your expenses ... you have *two* choices:

- Reduce your expenses
- Earn additional income

If your income is *greater* than your expenses ... you have *many* choices:

- Freedom from financial insecurity
- Increased expenditures for yourself or others
- Savings for the near-term and long-term future

***Accurate financial information is liberating.
Truthful awareness of the movement of money in your life
will provide the foundation for financial well-being.***

Other expenses?

internet account	glasses	gym membership
TV/cable/internet	sun glasses	cologne, deodorant
cellphone, iphone	prescription glasses	broom, dustpan
health insurance	ski rentals	vacuum cleaner
car insurance	ski passes	mop, cleanser
renter's insurance	ski equipment and maintenance	laundry detergent, bleach, dryer sheets, softener, etc.
homeowner's insurance	guns, ammunition, licenses	laundromat
child support	gun maintenance	dry cleaning
federal income taxes	range passes	shoes
state income taxes	business licenses	boots
property tax	photo equipment	socks, stockings
credit card bills	copiers, ink	sports wear
car loan	copies	underwear
driver's license	paper	jackets, coats, gloves
car registration	computer	raincoats, umbrellas
oil changes	computer apps, programs	work clothes
tires	computer repairs	casual clothing
other car maintenance	computer chargers, flash drives, etc.	formal clothing
car repairs	vitamins	restaurant meals
jewelry	aspirin, ibuprofen, cough medicine, etc.	coffee/coffee drinks
tattoos	hand lotions/creams	chocolate, candy, popcorn
hair color	contraception	movies/films
hair cuts	menstrual supplies	concerts
shampoos, cream rinse, hairspray, brushes, etc.	rental application fees	recorded music
shaver, cream	legal fees	lessons (dance, martial arts, music, etc.)
hair ties, decorations		books, magazines, kindle downloads, newspapers
perms		

textbooks	flashlights	home security system
alcohol	duplicate keys	Brazilian wax
cover charges at bars, etc.	bets, lottery tickets, “fantasy football”	phone upgrades
furniture	Hallowe’en costumes— yours, your kids and pets’	insurance co-pays
dishes, glassware	other party expenses	rental application fees
toothbrushes, toothpaste, mouthwash	child support	bar prep classes
contact lenses, cleaners, solution, etc.	day care	bar exams
gas or diesel (car, motorcycle)	medical marijuana card	bar dues
bicycle	marijuana	CLEs
cycling equipment, license	illegal drugs	counseling
helmet	tattoos	massage
pets	charities	tax preparer
pet food	church offerings	
pet toys, bedding	Campaign for Equal Justice	
inoculations, maintenance of pets	political campaigns	
veterinary costs	prescriptions, medical and dental expenses	
sun screen	Netflix, cable	
vacations	sitter— pet/children/plants/house	
passport	bus, trolley fare/taxi/Uber- Lyft	
commute costs		
postage stamps		
Fed Ex, etc.		
gifts (holidays, birthdays, baby or wedding showers, wedding gifts)		
birthday, other cards		
batteries		

Student Loan Terminology

Allocation—Payments on loans are applied first to servicers for fees, then applied to interest, then to principal.

Capitalization—interest that accrues during grace period or other deferment is added to loan principal when repayment begins.

Consolidation—extension of standard repayment period from 10 years to 20 years, reducing monthly payment amount but increasing interest rate. Consolidation can occur only once.

Consolidation is also a remedy to cure default, one time per loan, but cannot be used if borrower's wages are being garnished. Consolidating federal and private loans together converts all the loans to private status, eliminating borrower rights specific to federal loans.

Default—after 270 days of nonpayment (or fewer for some loans), the government gains the right to garnish wages, tax refunds, and Social Security benefits. There is no time limit on collection. (Private lenders have fewer rights and fewer tools and face statutes of limitation.) In default, the borrower loses some rights to re-negotiate loan terms and is not eligible for more loans or grants. Default can be cured by rehabilitation or consolidation.

Deferment—extension of grace period, while borrower is on active duty in the military, temporarily disabled, in school at least half-time, receiving need-based public assistance, unemployed or partly unemployed, in the Peace Corps or participating in Americorps/VISTA programs. For most of these reasons, the deferment can be obtained for up to three years. An application must be made each year. On subsidized loans, the government pays the accruing interest on the deferred loans. On unsubsidized loans, interest continues to accrue and will be capitalized. A borrower cannot obtain deferment if the loan is already in default.

Direct loan—aka William Ford Direct Loan. Federal government make these loans directly to students; no private lenders or guaranty agencies are involved. Direct loans are the only loans that qualify for public service forgiveness.

Discharge—elimination of balance of loan, for death, permanent disability; available for FFEL, direct, and Perkins loans. Status of taxation is unclear at this time.

Federal Family Education (FFEL) loan program—Now discontinued for new loans, replaced by the direct loan program. FFEL loans were made by financial institutions with repayment guaranteed by the government.

Fees—cost associated with collecting on a defaulted loan. Fees of 20% or more can increase to as high as 40% if account remains unpaid.

Forbearance—Temporary partial or full relief from making payments, at discretion of lender. All interest during period of forbearance is capitalized.

Grace period—time after borrower's leaving school before repayment is scheduled to start; time period varies according to loan type.

Graduated repayment plan—10-year repayment with the highest payment amount no more than three times the initial payment amount, with usually three increments in payment amount over the repayment period. The initial payment rate must cover at least the amount of interest accruing between payments. (For federal consolidated loans, the graduated plan would increase the repayment period up to 30 years.)

Income based repayment plan—Monthly payments of 10 per cent of discretionary income, revised annually, if borrower has no outstanding federal loans since June 30, 2014 (“new borrower”); 15 per cent of discretionary income for other borrowers. Repayment period 20 years for new borrowers, 25 years for other borrowers.

Income contingent repayment—Payments are 20 per cent of discretionary income for up to 25 years OR 12 years of repayment, adjusted to reflect income over time. Balance forgiven at 25 years—taxable event.

Mandatory forbearance (aka excessive debt forbearance)—borrower is entitled to forbearance on federal student loan when the payment required exceeds 20 per cent of the borrower’s gross income.

Pay As You Earn program—standard repayment amount OR 10 per cent of discretionary income, whichever is lower. Balance forgiven after 20 years—taxable event. See also “revised Pay as You Earn program.”

Perkins loan program—program is administered by participating school, repaid to school. They are need-based, apply to undergraduate and graduate programs. The grace period before repayment is 9 months. The program is set to expire this year without Congressional action.

PLUS loan program—Borrower can be parent of dependent student, or independent student in professional or graduate program. Applicants must show creditworthiness. PLUS loans are not eligible for income-driven repayment plans. PLUS loans have no grace period before interest accrues. PLUS loans are subject to borrower right of deferment.

Public Service Forgiveness program—Balance of loan forgiven after 10 years for equivalent of full-time service in public and non-profit sectors (fire, police, public defenders, some prosecutors, legal aid lawyers, primary and secondary teachers, others). Borrower is responsible for proving employment records. Borrower can choose standard payment model or payments under any of the income-driven repayment plans. Forgiveness of balance NOT a taxable event.

Rehabilitation—Borrower can rehabilitate some loans to remove default status. Rehabilitation of Perkins requires 9 consecutive timely payments; FFEL and direct loan rehabilitation requires 9 timely payments in 10 months. Payments must be affordable. Collection fees are not capitalized in rehabilitation, but are attached if borrower chooses to consolidate loans. (FFEL may have different rules; currently in flux.)

Revised Pay As You Earn program—same terms as Pay As You Earn (10 per cent of discretionary income), but with a 25-year write-off for students whose loans are for graduate work.

Settlement—limited option at lender discretion to reduce FFEL or Perkins loans. Settlement stops collection action, but does not eliminate debt. Settlement is usually a taxable event.

Stafford loan program—now subsumed in the Ford direct loan program. After June 30, 2012, there is no subsidy for interest on loans to graduate and professional students.

Subsidized loan—a federal loan based on financial need of the borrower; the government pays accruing interest until the end of the borrower’s grace period or deferred period.

Undue hardship—financial status that would make it impossible for borrower to maintain a minimum standard of living if required to make full loan payments

Unsubsidized loan—a loan not based on financial need; the accruing interest on the loan is capitalized into the principal.