Introduction

The National Center for Education Statistics reports that at the conclusion of the 2008-2009 academic year 57% of professional school graduates specialized in religion graduated with educational debt and that their average academic year debt was $13,200 with a cumulative debt of $31,400. That was four long years ago. Applying a conservative assumption that need increased by at least 5% per year, the average cumulative educational debt would rise to $40,000 by the end of 2012.

There has never been a time when it is more crucial that graduates and those who mentor candidates for ministry and pastors understand how to manage educational debt.

In this document we’ll unpack some of the most common debt management tools available to student loan borrowers and unpack some new initiatives. We will explain how these tools are used to the benefit of the borrower. Wherever possible we’ve incorporated links to websites that will provide users with the most up-to-date information about the initiatives discussed. Lastly we’ll explore debt management solutions offered by the Presbyterian Church (U.S.A.) and Board of Pensions.
After Graduation

In April 2011, the Institute for Higher Education Policy published a report on student loan delinquency, making a somewhat startling claim. Despite the low default rates for unsecured, publicly financed student loans, only 37% of borrowers in the Perkins, Stafford, and Direct loan programs were able to make payments without using deferment or forbearance, or without periods of delinquency. 41% of borrowers experienced delinquency up to and including default.

With educational debt approaching 1 trillion dollars in 2012, the percentage of borrowers experiencing delinquency is likely to increase. Avoiding delinquency and default starts with understanding that student loans must be managed or paid.

Protections for Student Loans

There is no debt quite like a student loan. There is no statute of limitations on collectability, remedies in bankruptcy are rare, and the federal government can garnish wages, seize tax returns, and garnish a portion of Social Security checks—all without a court order.

PCUSA has its own student loans. Our experience working with defaulted borrowers suggests that while financial hardship and unemployment are factors, the most common problem borrowers have is that they don’t use the tools that are provided to seek relief. Borrowers will, for example, continue to make payments on credit cards to protect their interest rate and preserve access to credit, and ignore the student loan servicer. This is a mistake. Servicing agencies report to consumer credit bureaus; failure to pay or respond damages your credit.

Because student loans enjoy such a protected status, publically funded educational debt has powerful debt management tools that aren’t available to borrowers using other forms of debt, like a credit card.

Borrowers can request deferment, forbearance, or income based repayment in order to suspend payment or reach an affordable payment or maintain the loan in good standing while the borrower is without income or gainful employment.

Seminary graduates should be familiar with these tools—students are required to participate in a student loan exit interview prior to graduation. Discomfort with indebtedness, denial about the gravity of defaulted student loan debt, and a reluctance to acknowledge that there is a problem may keep borrowers from asking for help.

Board of Pensions offers plan members financial counseling services through the Employee Assistance Program. Visit www.pensions.org and search for Employee Assistance Program.

Using Loan Management Tools

Contact Loan Servicer If
- You are unable to make a payment
- You are moving
- You have not received a statement and you are no longer attending

Requesting Deferment/Forbearance

This is a fairly simple process that requires documentation. Borrowers request deferment or forbearance forms from the agency servicing the loan(s). It takes about five minutes to complete the one-page form. Additional documentation may be required. The loan status is not changed by requesting deferment/forbearance, or by submitting the form. The loan servicer must receive and act on the information.

Unemployment deferment and forbearance requests may require verification that the borrower is seeking employment full-time (at least 30 hours) in any field, at any salary or responsibility level and have registered with a public or private employment agency. (NOTE: School placement offices and “temporary” agencies do not qualify as public or private employment agencies, and seeking a call through Church Leadership Connection does not satisfy the ‘any field’ requirement). Call seekers with federal student loan debt should register with employment services. To find employment services, visit www.service locator.org and search by zip code or state.

Actions to Take:
- Graduated at least six months ago and not receiving statements, update contact information with loan servicer.
- Past Due—work with lender to rehabilitate loan.
New & Improved

Income Based Repayment (IBR)

On October 25, 2011 the Obama administration enhanced some existing student loan repayment options for federal student loan borrowers. We’d like to explain why we think the most recent initiative is helpful to candidates and pastors with educational debt, and present information about debt assistance and loan forgiveness.

The Pay As You Earn initiative presents two ways to reduce risk of default, and enhances existing repayment plans for Direct borrowers.

Students graduating in 2012 who have borrowed since 2010-11 are probably Direct loan borrowers. Students graduating in 2012 with debt acquired prior to 2010-11 may have combinations of Direct, FFELP, and Perkins loans.

Initiatives:
- Allow Direct borrowers to cap their student loan payments at 10% of discretionary income (Income Based Repayment).
- Improve Ease of Making Payments and Reduce Default Risk by Consolidating (FFELP/Perkins to Direct) Loans

Benefits of Income Based Repayment:
- Effective January 2012, will allow borrowers to cap student loan payments at 10% of discretionary income.
- If IBR payment does not meet or exceed interest accrual, the federal government will subsidize the difference for the first three years in IBR.

<table>
<thead>
<tr>
<th>Adjusted Gross Income</th>
<th>$10,000</th>
<th>$15,000</th>
<th>$20,000</th>
<th>$25,000</th>
<th>$30,000</th>
<th>$35,000</th>
<th>$40,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 IBR Monthly Payment</td>
<td>$0</td>
<td>$0</td>
<td>$30</td>
<td>$72</td>
<td>$114</td>
<td>$155</td>
<td>$197</td>
</tr>
</tbody>
</table>

Note: The chart above assumes family size is 1 (borrower, no spouse or dependents). Discretionary income allowances for IBR are sensitive to family size.

Benefits of Consolidation:
- Provides access to Income Based Repayment for FFELP and Perkins borrowers.
- Borrowers receiving multiple statements may be able to reduce the number of bills they are receiving, simplifying payment.
- Borrowers would also receive up to a 0.5% reduction to their interest rate on some of their loans
  - 0.25% interest rate reduction on their consolidated FFELP loans, and
  - Additional 0.25% interest rate reduction on the entire consolidated FFELP and DL balance.

Actions to Take:
- Visit the National Student Loan Data System (NSLDS) http://www.nslds.ed.gov/nslds_SA/
- Go to the IBR calculator to determine if IBR will benefit you http://studentaid.ed.gov/PORTALSwEBApp/students/english/IBRCalc.jsp

In January the Department of Education will contact FFELP borrowers eligible for special direct loan consolidation. This will be a limited time offer from January to June 2012, and will only apply to FFELP loans in good standing.

Public Service Loan Forgiveness

There has been a lot of controversy recently about Public Service Loan Forgiveness and how it might be used by graduates of seminary. There was an article in the Huffington Post and the Department of Education has recently issued a clarification.

PSLF was created in 2007. Under this program an incentive to enter public service was created for Direct loan borrowers. The incentive works like this:

- You must make 120 on-time, full, scheduled, monthly payments on your Direct Loans. Only payments made after October 1, 2007 qualify.
- You must make those payments under a qualifying repayment plan.
- When you make each of those payments, you must be working full-time at a qualifying public service organization.

Qualifying public service organization is where some of the confusion and controversy about this program originate. Let’s debunk that. The U.S. Department of Education does not hate you, God, or religion in general. Congress placed certain limitations on kinds of non-profit employers and employment. Employees of labor unions and partisan political organizations may not participate in PSLF. Your employment will not qualify for PSLF if your job duties are related to religious instruction, worship services, or any form of proselytizing.

Is it possible that a congregation could employ a person eligible for PSLF?

Yes, but that person would not be the pastor, and their services would have to be confined to a range of public service functions defined in the statute.

Who might be able to use PSLF?

Anyone employed full-time (30 hours a week) by public agencies or non-profits should review PSLF guidelines by visiting www.studentaid.ed.gov and searching for PSLF.
Debt Assistance Programs
Presbyterian Church (U.S.A.)
Board of Pensions and General Assembly Mission Council

Good News for Presbyterian Church (U.S.A.) Inquirers and Candidates

Board of Pensions and General Assembly Mission Council provide assistance with educational debt to pastors of small PCUSA congregations.

Seminary Debt Assistance—Board of Pensions

The Seminary Debt Assistance Program was created to reduce the financial pressures on new ministers serving small churches. Helping ministers repay their seminary educational debt makes it easier for them to accept positions at small churches and effectively minister to their congregations. Under this program, ministers of the Word and Sacrament who are in their first seven years of ministry and are serving a PC(USA) church of 150 or fewer members with an annual budget of $250,000 or less, and who are serving in a full-time, called pastoral position can receive a grant of up to $1,500 per year, for up to four years, to repay educational debt incurred while seeking a master of divinity degree. A minister may receive up to $6,000 over the course of four years. Participants in this program must attend a Board of Pensions financial planning seminar.

For more information and an application, visit www.pensions.org and search the site for Seminary Debt Assistance.

Contact

Attn: The Assistance Program
2000 Market Street
Philadelphia, PA 19103-3298

800-773-7752 (800-PRESPLAN)

Rev. Peter C. Sime
VP, Assistance, CREDO, and Funds Development, x 7227

Dick Liberty
Manager, Assistance, x 7222

Next Steps:
Stay in touch with your loan servicer, and keep your loans in good standing.

- Use IBR to reduce your monthly payments.
- If you are not called to a congregation as a pastor, investigate your eligibility for PSLF.
- Seek assistance with debt assistance from the denomination

PCUSA Transformational Leadership Debt Assistance (TLDA)

Created in 2011, ten years after the Board of Pensions launched Seminary Debt Assistance, Transformational Leadership Debt Assistance is a student loan program for seminary graduates.

TLDA provides $3,000-$5,000 in a forgivable loan to teaching elders with educational debt called by God to small Presbyterian Church (U.S.A.) congregations and emerging worshipping communities without the support of a full-time and/or permanent pastoral position.

Loan proceeds are paid directly to reduce the balance on educational debt. After 18 months of service in a part-time and/or temporary pastoral position, the loan is forgiven.

Borrowers may apply for additional assistance. Maximum lifetime benefit is $15,000.

www.pcusa.org/tlda

Contact

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100 Witherspoon Street
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finaid@pcusa.org
Toll Free 800-728-7228 ext 5735

Visit Us on the Web
www.pcusa.org/financialaid