



Spinosa Wealth Management Group
Randy Spinosa, CPA, CFP, ChFC
4565 Lasalle Street
Suite 201
Mandeville, LA 70471
985-674-6722
randy@spinosawmg.com
www.spinosawmg.com

SPINOSA WEALTH
MANAGEMENT GROUP
The Power Of Minds Over Money

New Student Debt Repayment Plan

On October 26, 2011, President Obama announced a plan that seeks to help college graduates pay back their federal student loans. The plan is an executive order and does not require approval by Congress. It is scheduled to take effect beginning in 2012.

Background



Despite more aggressive debt shedding by American consumers since the recession, student loan debt continues to grow. According to the federal government, 36 million Americans have federal student loan debt. Last summer, total student loan debt surpassed credit card debt for the first time, and this year outstanding student loan debt is on track to reach \$1 trillion, according to the Federal Reserve Bank of New York.

In addition, in September, the U.S. Department of Education released data showing that the percentage of student loan borrowers who defaulted in 2009 (the latest year for which figures are available) rose to 8.8% from 7%. That percentage is likely higher now due to the recession, as millions of cash-strapped college students attempt to pay back student loans in a tough economy. According to the Chronicle of Higher Education, last year the unemployment rate for college graduates under the age of 24 rose to 9.4%, the highest level in at least 15 years.

In the meantime, college tuition continues to rise; the College Board recently announced in its *Trends in College Pricing 2011* report that tuition costs for the 2011/2012 academic year increased 4.5% for private colleges and 8.3% for public colleges (to view the report, visit www.collegeboard.com/trends). The average total cost of attendance this year is now \$42,224 for private colleges and \$21,447 for public colleges. And next July, the interest rate on federal Stafford Loans is scheduled to double--to 6.8%--costing the average borrower thousands of dollars over the life of the loan.

Against this backdrop, following are the highlights of President Obama's plan.

Loan consolidation

Students who hold both direct federal student loans and federal student loans made by private lenders under the now defunct Federal Family Education Loan Program would be able to consolidate their loans between January and June 2012 into a single government loan at an interest rate of up to 0.5% less. The White House estimates this could help approximately 5.8 million borrowers.

Income-based repayment

President Obama's plan will accelerate the start of an income-based repayment program to 2012 from the original start date of 2014. The program, approved by Congress last year, caps monthly federal student loan payments at 15% of income and forgives all remaining debt after 25 years. Under the new plan, federal student loan payments will be capped at 10% of income with all remaining debt forgiven after 20 years. The White House estimates this could help 1.6 million borrowers.

Who qualifies?

According to the U.S. Department of Education, to qualify for loan consolidation, borrowers must have both a direct federal student loan and a federal student loan under the Federal Family Education Loan Program. To qualify for the accelerated component of the income-based repayment plan, borrowers must take out a loan in 2012 or later *and* have taken out a loan sometime between 2008 and 2012. Borrowers who are already in default won't qualify.

For more information on the new programs, you can call the office of Federal Student Aid, a division of the U.S. Department of Education, at 1-800-433-3243 (1-800-4fedaid) or visit www.studentaid.ed.gov.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

The tax information provided is not intended to be a substitute for specific individualized tax planning advice. We suggest that you consult with a qualified tax advisor.

Securities offered through LPL Financial, Member FINRA/SIPC