CASE 1: A NURSE WITH A PLAN

JAVON BROWN

Masters of Nursing | 2014 | 27 years old

STUDENT LOAN DEBT AT GRADUATION: $63,457

ANNUAL INCOME: ~$75,000

The Situation

What were you getting paid when you first started repaying your loan?

I was salaried so my first year was 52,000 (I only work 9 mo of the year plus get holiday breaks).

What repayment plan(s) have you used and what is the required monthly payment?

I just do a standard 10 year plan, if I would consolidate then it makes me ineligible to qualify for student loan repayment through HRSA (Health Resources and Services Administration).

What is your general attitude toward student loan repayment? (i.e. repay as quickly as possible, pay the minimum, etc)

My current thought is to pay these frocks off as fast as I can.

When do you expect to have your student loans repaid or when did you pay them off?

I have a little over 52,000 left so if I get the student loan repayment they will cover 60% over the next two years and then 25% for a third year. If I would receive this I hope to have all student loans done in 3 yars with their contribution and mine. If not then I'm praying for 7 years.

What does your monthly budget look like?

I budget out 2,750 for expenses and if I find stuff cheaper I can save that if not that's an approximate of what I spend. I am refinancing our home so that payment will go up slightly by about $50 but then I'll only have to pay on it for 20 years rather than 30 and my interest will go down about 1.125%.

The Assessment

Let's start by assessing our baseline situation, which is the debt:income ratio.

Javon's debt:income ratio is calculated by taking his total debt of $63,457 and comparing it to his annual salary, I'll use his assessment of ~$75K gross.

This gives us a debt:income ratio of 0.85:1. This is a very healthy debt to income ratio. So looking back at all of our repayment plan options let's examine the plans that are best-suited to someone with a low debt:income ratio.

We can immediately rule out any of the income-adjusted repayment plans. The majority of the plans (PAYE, IBR) require high debt:income ratio. They also will take longer to pay off than a standard 10-year repayment plan.

Javon's perspective on student loans is that he just wants to knock them out as quickly as possible. That means that although his student loan amount is >$30,000 and he would be eligible for the extended repayment plan, it doesn't meet his personal financial goals.

The remaining payment plan that suits his financial needs and personal goals is the 10 year standard repayment plan.

He mentions that he was not able to consolidate his loans because that would make him ineligible for loan repayment assistance through HRSA. It's important to look into the impact of loan consolidation prior to making that decision.