MGIC

# get ready

KEYS TO SUCCESSFUL HOMEOWNERSHIP

## *Managing Student Loans*

You finally have your hard-earned degree, a promising new job — and an intimidating pile of student loans you haven't given much thought to since freshman orientation. One of the cornerstones of adulthood you've dreamed about is owning a house. But is it smart, or even possible, to afford a mortgage while paying off student loans? Lucky for you, there are many options and resources available to manage your student loans and buy a home; the key is to look at the big picture now, make informed choices and follow through.

## Get Ready to learn how to...
## *Successfully Manage your Student Loan Debt*

Student debt can be hard to grasp when looking at the bottom line, especially when considering a mortgage; but there is always a beneficial option for your current and future self. Inside you'll learn about different types of loans, how debt impacts your credit, the benefits of having a student loan, and your ability to be granted a mortgage.

Paying off your loans is not an overnight process; but when you take it one step at a time, you'll feel confident and secure in your future financial options. Successfully managing your student loans makes becoming a homeowner a much easier choice.

TO LEARN MORE ABOUT YOUR OPTIONS

# 7 TERMS
## You Should Know

1. **Consolidation** is the act of combining multiple loans into a single loan and repayment plan.
2. **Default** is what happens if minimum payments are not made for nine months after a loan is declared delinquent. This is bad.
3. **Deferment** is the period of time where your loan payments haven't "kicked in" yet or are currently delayed. Many student loans are deferred until several months after graduation.
4. **Delinquent** is the status of a loan that has missed at least one payment.
5. **Extension** results in extending the loan term to allow for lower monthly payments.
6. **Forgiveness** is a rare opportunity to have all or part of your student loans forgiven; it is only allowed in special circumstances and with certain student loan programs. Don't get your hopes up!
7. **Loan Term** is the amount of time the loan is active and still being paid off. A longer life-of-loan typically results in smaller monthly payments but more accumulated interest.

# *Manage your Student Loan Debt*

### *What's the big picture?*

**You are not alone**. If you've been online or watched the news in the past few years, you know student debt is only growing, so you're not the only one grappling with it. In fact, you are one of 40 million others contributing to a record 1.2 trillion of student debt nationwide. The average balance per student borrower is currently $29,000, with the average borrower having 3.7 open loans. 39% of those loans are in deferment, however, with the remaining 61% paying an average of $279 a month. [Source: Experian Study, 2014]

**There is a viable plan for you.** It's easy to feel overwhelmed, but there is a plan that will work for you. Some plans take longer to pay off and have a fixed minimum payment, while other minimum payments will grow over time.

### *Can you still get a mortgage if you have student loans?*

**A student loan is treated like any other installment debt**, similar to a car or appliance loan. It's normal, even expected, that someone looking for a mortgage may have other loans. What's important is establishing a good payment history that shows you're responsible with your finances every month.

**Talk to a loan officer** to see what options you have. If you have a good payment history and sufficient funds, then having a student loan could actually help rather than hurt your chances of being approved for a mortgage. The loan officer will also give you an idea of how much you can afford.

### *How do student loans affect your credit?*

**Establishing credit is crucial** to obtaining a mortgage. Along with staying on top of your student loans, using your credit card every month and making consistent on-time payments will also boost your credit rating. The higher your credit rating, the easier it will be to obtain a mortgage.

**Student loans build credit.** One in five millennials do not own a credit card, which means they can't have much of a credit history, making lenders wary. Fortunately, paying off your student debt raises your credit score; according to a study by Experian, individuals paying off student debt aged 18-34 have a credit score 20 points higher than those with no student debt.

**Missing loan payments will hurt credit.** While having a loan will help your credit, missing any payments will do the opposite. Any late payments will be reported to the three major credit bureaus and be reflected in a lower credit score, hurting your chances at being granted a mortgage in the future.

**Set up an automatic payment.** Doing so will give you a security blanket so you won't have to worry about missing a payment.

**Avoid defaulting on your loan!** Defaulting will essentially destroy your credit and be noted on your credit report for seven years. You may no longer be eligible for new loans or grants. The government can also seize tax refunds, take a portion of any social security payments, and generally make your life more difficult.

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## *Find the best repayment plan for you*

**Federal or private?**

There are two main programs for student loans: federal and private. They each have their merits, but most students choose a federal loan for their student loans. With a private loan, a bank acts as the lender, and with a federal loan the government acts as the lender. Federal loans are deferred until at least graduation, while some private loans require payment while you're still in school. Government student loans are also locked at a fixed rate, while private loans depend on your credit score and may change over time.

Federal repayment plans can be changed at anytime, so don't stress out about predicting the future! Pick the plan that works best for you right now and the foreseeable future, and if you get a raise or stumble on hard times, you can change your plan accordingly.

The two main variables for any student loan are the loan term and the minimum monthly payments. Generally, when the loan term is shorter, the minimum monthly payments are higher, and vice versa. Take a look at the chart to get a better idea.

## *Is a mortgage right for you?*

You feel confident in managing your student loans, but what about adding a mortgage?

**There may be short-term consequences.** If, in order to afford adding a mortgage to your debt, you end up selecting a repayment plan to lower monthly payments, it may result in a longer loan term and more total interest. And when you add that to the mortgage, it will mean having less discretionary spending money, so you may have to think twice and look at your budget before buying that new TV or going to see your favorite band. Of course, you won't have to wait to enjoy all the benefits of owning a home either.

### Federal Student Debt Repayment Plans

| Loan Types | Loan Terms | Monthly Payments | Quick Comparison + Stipulations |
|---|---|---|---|
| Standard | Up to 10 years | Fixed amount of at least $50 per month | You'll pay less interest over time compared to other loans |
| Graduated | Up to 10 years | Lower at first, then gradually increases, usually every two years | You'll pay more for your loan over time than under the 10-year standard plan |
| Extended | Up to 25 years | Payments may be fixed or graduated | You'll pay lower monthly payments than a standard plan, and you must have more than $30,000 in outstanding payments |
| Income-Driven | Up to 25 years | Maximum monthly payments at 15% of discretionary income | You must have a partial financial hardship. Your payments will be lower than a standard plan, increasing the loan term. Outstanding balance after 25 years of qualifying payments will be forgiven. |
| Consolidated | Up to 30 years | May be lower than aggregate of original separate loan payments | You'll typically extend the length of the loan, but will increase total interest costs |

**There are long-term consequences.** On the other hand, you will also be building your equity and wealth as you continue to pay your mortgage. If you're planning on having a family, or already have one, the long-term benefits of having a home can be substantial. Years down the road, if you're looking to move, you may be able to sell your home for more than you paid, helping you afford a nicer or larger home.

**It's up to you to make an educated decision.** It all depends on your priorities and a variety of personal factors. Taking out a mortgage is no small decision, and it isn't one that someone else can make for you. Deciding on a mortgage can be even more intensive than deciding the best way to pay off your student loans, so make sure to take your time, consider all options and be honest with yourself!

## *Added responsibilities of homeownership*

**Along with the many benefits of homeownership, there is also a lot of added responsibility.** The house is all yours, so there's no pesky landlord to deal with. Homeownership also means fixing anything that's broken, mowing the grass, shoveling the driveway, paying all the utilities, buying appliances, getting homeowner's insurance, and more. Owning a house will cost more than just the bottom line of the mortgage, and it's important to make sure that you save enough up to pay for additional expenses.

## *Benefits to owning a home*

Besides the immediate benefits like having a place to call your own and painting the walls whatever color you want, you will also be building your equity and wealth as you pay down your mortgage. To discuss your options and see if a mortgage is a viable option, please contact a loan officer.

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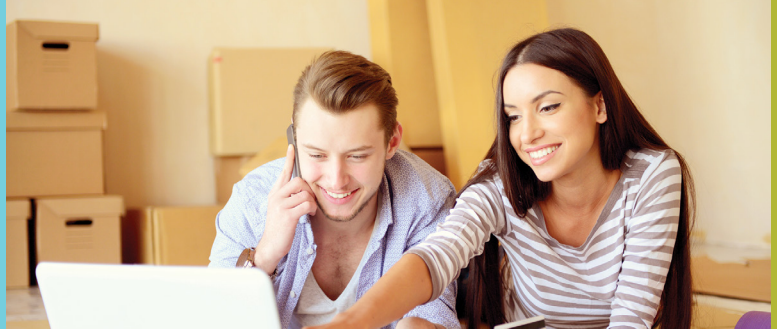

## Final Checklist

**Decide where homeownership fits with your priorities.** Make your own personal list of the short- and long-term pros and cons of homeownership. How important a mortgage is to you will influence how you repay your student debt. If you want to become a homeowner, are you willing to wait a few years, or do you want to get a mortgage as soon as possible?

**Choose the best student debt repayment plan for you.** Remember that the two main variables are the loan term and minimum monthly payment. Higher monthly payments translate to a shorter loan term and less interest. On the other hand, a lower monthly payment may mean a longer loan term and higher cumulative interest. Visit **studentaid.ed.gov** to explore your options.

**Get a credit report.** Your credit score will determine what sort of mortgage you may be eligible for. The official government-sanctioned free credit report website is **annualcreditreport.com**.

**Talk to a loan officer.** Be prepared with the knowledge of your current income, credit score, and potential student loan repayment plans. With this information, your loan officer will be able to give you an idea of what options you'll have in order to secure a mortgage.

**Check out our Homebuyer Education Guide.** If you've decided you want to become a homeowner and have a plan in place, be sure to check out MGIC's Homebuyer Education Guide at **homebuyers.mgic.com**. You can even take a test that will help you understand all facets of homeownership so nothing comes as a surprise on move-in day.

## Resources

**Studentaid.ed.gov / Repayment Estimator**

The Federal Student Aid website is your go-to resource for any questions you have regarding your federal student loan. Here you can find the Repayment Estimator. Using this tool, you can enter some key figures, and it will give you a snapshot of each of the five plans including eligibility, the repayment period/life-of-loan, a monthly payment chart, total interest paid, and total amount paid over the course of the loan.

**Homebuyers.mgic.com**

A lot more goes into buying a home than simply being able to afford it. Here you'll be able to study from a homebuyer education guide covering a range of topics, getting you ready to buy a home and giving tips on how to become a successful homeowner. Once you've studied these topics, you can take a homebuyer education test. If you pass, you'll be awarded a certificate of achievement!

## Getting help...

If you are unable to make your monthly student loan payment, the best thing you can do is to contact your lender immediately. The last thing you want to do is default on a loan, and there are ways lenders can help, as long as you reach out to them. One available option may be entering deferment or forbearance, which will put your payments on hold, although interest would still accrue. You may also change the terms of your plan to better fit your current situation. Remember, the only way to get help is to ask for it!

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**This publication is proudly sponsored by MGIC, the nation's largest provider of mortgage insurance.** Since its inception, MGIC has helped millions of American families achieve the dream of homeownership. We remain committed to helping potential homebuyers to better understand the mortgage process and to overcome the single greatest hurdle in homeownership, the down payment. When you are ready to buy a home, be sure to ask your lender how you can reduce the required down payment by financing with mortgage insurance from MGIC.

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