

MY MONEY

FINANCIAL EDUCATION - Powered by CAMBRIDGE CREDIT COUNSELING

Student loan update - critical changes happening now!



The One Big Beautiful Bill Act (“OBBA”) is imposing significant changes to federal student loan repayment and borrowing. On paper, it appears that many of these changes won’t go into effect until June 30, but that’s not really the case. Everyone with federal student loans, especially parents carrying Parent PLUS loans and anyone who needs to take out any additional loans after June 30, needs to pay attention right now. **There are steps you may need to take immediately.**

If you’re a federal Parent PLUS loan borrower, time is of the essence, especially if you’ll qualify for Public Service Loan Forgiveness.

1. For Parent PLUS loan holders, the June 30th cutoff date works differently from prior federal student loan deadlines, for which you typically only had to have submitted a completed application by the date in question. This time, if you need to consolidate, you’ll have to complete your consolidation before June 30, 2026. Considering that a consolidation can take 45-65 days – or longer, to complete, you’ll need to submit a consolidation application ASAP to make sure your loans have been consolidated by the end of June, and that you choose the ICR plan to repay the resulting consolidation loan.

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IN THIS EDITION

Student loan update!

Consequences of having too much debt

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What are the consequences of having too much debt?

Most of us have debt to some degree. Having “manageable” debt is a normal consequence of life. We all need a house or apartment to live in, a car to drive, and food to eat. But there’s a point where debt becomes too much to handle and becomes difficult to comfortably repay. This can lead to a variety of issues - none of them are ideal, from financial consequences to health-related issues.

Financial Consequences

It goes without saying that having excessive debt can severely impact your financial goals. As your debt-to-income ratio becomes too high, this makes you less attractive to lenders and can negatively impact your credit score. A good portion of your credit score is based on credit utilization, which is a simple comparison of your total credit balances to your total credit limits. A good practice is to keep your credit utilization to 30% or lower.

If your credit score is low, you will undoubtedly pay more for things like mortgages, cars, and even insurance rates. A high credit score could save you hundreds of dollars per month on your mortgage payment, but in the long-term this could equate to tens of thousands in interest payments.

A high debt-to-income ratio can greatly reduce your borrowing power, too. You are much less likely to be approved for new loans (especially at a competitive interest rate) with a high amount of debt compared to your income.

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DEBT



DELETE

What are the best ways to eliminate debt?

If you've found yourself overloaded with debt, there are several options available to help you get that debt under control – some safer and more effective than others. For the purposes of this discussion, let's assume that increasing your income is not a possibility.

Before you start: Make sure you have an accurate budget in place.

It seems obvious, but many of us skip this fundamental step. Identifying the debt relief option that will work best for you is largely determined by your budget. If you don't have the income to support your basic expenses, then some options are off the table for now. If you don't have a budget, or if it's been a while since you last reviewed it, there are a number of online budgeting tools available to help you. We recommend our MyMoney Financial Education and Budgeting Portal. This is a FREE site that allows you to create and maintain your household budget.

Once you have a good understanding of where every dollar is going, you'll be able to make better decisions on the best way to move forward. In fact, most of the debt relief options available will require you to go through a household budget exercise to see if you qualify, so it's a great idea to get started on this ahead of time.

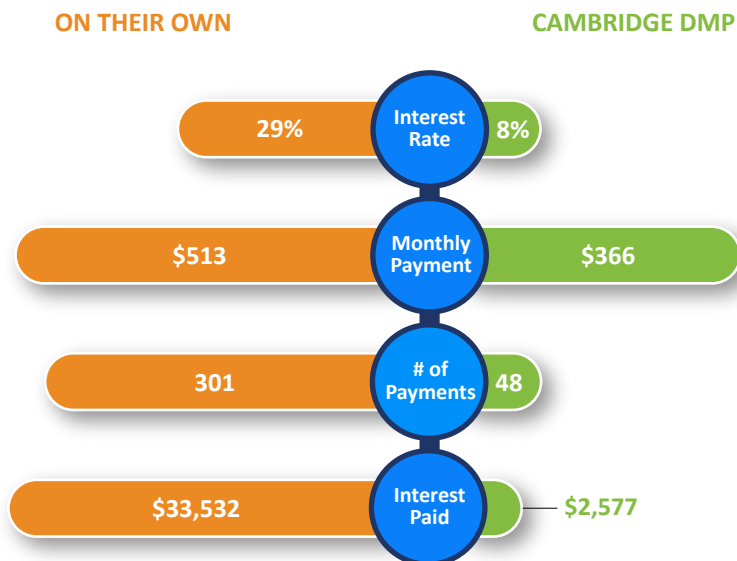
Option 1: Debt Management Plan offered through a non-profit credit counseling agency

If your budget shows that you have the income to cover your expenses, but you have very little wiggle room at the end of the month, nonprofit credit counseling is one of the safest and most effective options. You'll work one-on-one with a certified debt specialist who will review your budget and, if you qualify, enroll you in a debt management plan, or "DMP." DMP's work best if you are looking to eliminate credit card or other unsecured debts, that is, debts without collateral. A DMP will not help you reduce your mortgage, rent, or car payments, but if you do have credit card debt, a DMP can be a life-changer.

Nonprofit agencies like Cambridge work directly with all major creditors to offer consumers a variety of benefits designed to help them get out of debt in a short period of time. The main benefit of a DMP is a reduction in the amount of interest you're being charged.

The average interest rates for credit cards enrolled in a DMP are around 8% but can be as low as 0%. Compared to the typical credit card interest rates, which can often range from 25-29%, you can see how a DMP can save you thousands of dollars in interest payments. DMPs are designed to eliminate credit card debts in 6 years or less. The average client only needs 4 years, again due to the significant interest rate reductions and fee waivers granted by their creditors.

The following example illustrates the benefits of a DMP for a consumer with \$15,000 in credit card debt who could only afford the minimum payments:



Accounts enrolled in a DMP are closed, but you'll likely be able to keep one or two accounts open to use in an emergency.

Option 2: Debt Consolidation Loans

If you currently have a lot of high-interest credit card debt, a debt consolidation loan could be a viable option for you – provided that you change the spending habits that got you into debt in the first place. The question is, will taking out a debt consolidation loan change those habits? A loan will likely save you money every month due to the lower interest rate, but will it be enough to cover those "extra" expenses, or will you still need to use credit cards to get by?

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2. After consolidating, you want to ensure that you make at least one payment through the income Contingent Repayment plan, or “ICR.” Then you can switch to the “IBR” plan and continue until you reach your 120th payment and qualify for PSLF. Please note that, after you apply for the consolidation, you’ll receive a message stating that your loans aren’t eligible for “the IBR, PAYE, or SAVE plans.” We know that. The letter should state that your consolidation loan will be eligible for the ICR plan, which is what you selected, and that you’ll be able to switch to the IBR plan after you’ve made at least one payment. The technology is not keeping pace with the rule changes, unfortunately.

3. You can use the “Loan Estimator” on www.studentaid.gov to give yourself an idea of what your monthly payment will be on the ICR plan. Many parents who file taxes jointly discover that the ICR payment is unaffordable. You may still have hope...

4. To reduce that monthly payment, consider changing the way you file your taxes. If you file “Married/Filing Separately,” only the income of the borrowing parent will be considered. This should reduce the payment, which is based on your adjusted gross income and family size. If you use an accountant to file your taxes, consult with them immediately to determine the impact that a change in tax filing status would have on your results. If you file taxes yourself, you could use last year’s tax numbers to calculate the difference, if any, that such a status change would have. If the change wouldn’t seriously impact your taxes but would result in a significantly lower monthly student loan payment, file this year’s taxes immediately, then file the consolidation application by the first or second week of April. If you’ve already filed this year’s taxes, you can change your filing status next year to reduce the amount of the remaining payments. After your loan balances are forgiven, you can change your status back to Married/Filing Jointly.

And that’s not all, Parent PLUS loan borrowers. If your student is still in college and you need to take out additional Parent PLUS loans, you have some very difficult choices to make.

That’s because a different part of the OBBBA contains a poison pill for you. If you take out any additional loans, your existing Parent PLUS loans will not only become ineligible for ICR, they will also become ineligible for future income-driven repayment and would no longer be forgivable through Public Service Loan Forgiveness. For this reason, we’re advising anyone in this position to either have their spouse take out the additional federal loans, shielding the existing loans from damage, or to consider taking out private loans for the remainder of their child’s education.

As of this writing, the OBBBA prevents any Parent PLUS loans taken out after June 30th from being forgiven through PSLF – not existing loans, future loans. That’s why we’re suggesting that any future Parent PLUS loans be taken out by the spouse who hasn’t borrowed until now. That would allow your existing Parent PLUS loans to be forgiven.

If you’re one of the millions of borrowers who’ve been stuck in the SAVE forbearance, you must move into a different plan by September 30, 2026. If you want to keep your Public Service Loan Forgiveness option alive, consider the IBR repayment plan.

It’s been nice not having to make a payment, of course, but you haven’t been getting credit for the work time, either, and there are no signs that you’ll be able to do so retroactively down the road. Use the loan estimator tool on studentaid.gov to get a rough idea of what your monthly payment will be in the IBR plan and get back on the road to making 120 qualifying payments. Please note that **if you applied for the Income-Based Repayment Plan (or “IBR”) over the last year or so but were denied because you earn too much money, it’s time to submit a new application.** That’s because the U.S. Department of Education has just dropped the requirement that applicants must have a “partial financial hardship,” opening the door for everyone who wants to enroll in IBR. If your goal is Public Service Loan Forgiveness, switching to IBR as soon as possible makes sense.

If you’re not finished with your education and need to take out additional loans, you’re in a tough spot.

That’s because any loan taken out after June 30, 2026, will make all of your loans, including all undergrad loans already enrolled in IBR, ineligible for any plans other than the new Repayment Assistance Plan (“RAP”), which will debut this summer, or a new tiered plan. RAP payments will be eligible for PSLF, but payments made through the tiered plans will not. If your current loans are being repaid through IBR and you take out a new federal loan after June 30, 2026, your old loans and your new loans would have to be repaid through the new tiered plan or RAP.



Need to discuss your student loan options?

Call our Student Loan Counselors at (888) 661-7910

What are the consequences of having too much debt?

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Another consequence of excessive debt is the inability to save for your future, a big expense, or retirement. If your debt levels exceed your ability to comfortably pay them every month, you could find yourself using credit cards for everyday expenses. This creates a cycle of “robbing Peter to pay Paul” and eventually, when the credit lines are maxed-out, your options become quite limited.

Health Consequences

Financial stress can affect nearly every facet of your life. If you constantly find yourself consumed with how much money you have (or don't have) and how you're going to keep a roof over your head, get to work, or feed your family, then you could certainly develop one of several stress-related health conditions. If these go unnoticed or untreated, it could even result in very serious, sometimes life-threatening illnesses.

Two of the most common effects of financial stress are anxiety and depression. These two conditions usually go hand-in-hand. Each one can be a debilitating condition that makes it hard to focus at work, spend time with your family, and keep up with your bills and other financial responsibilities. The stress of having too much debt can weigh on a person and cause severe anxiety and depression. If you are behind financially and are feeling discouraged and hopeless or have feelings of constant worry and poor concentration, you may be seeing signs of one of these disorders, and you should probably talk to your doctor.

If you find yourself overburdened by excessive debt or can foresee this being an issue in the future, it's important that you try to address the situation as soon as possible. Make or update your household budget and look for ways to decrease your expenses. Remember, your health is your most important asset!

To speak with a certified debt specialist, call (800) 527-7595 or click here to make an appointment with a counselor at Cambridge Credit Counseling.



Create and maintain your household budget on our [MyMoney Budgeting Portal!](https://www.mymoneybudgetingportal.org)



 [MyMoney.Cambridge-Credit.org](https://www.MyMoney.Cambridge-Credit.org)

What are the best ways to eliminate debt?

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The worst thing you could do is to take out a loan to pay off your credit cards and then start using those cards again for things that you likely don't need or don't fit your budget. If you can't afford to pay off your balances within a few months, you'll likely find yourself right back where you started, except now you also have a loan payment to make.

Option 3: Bankruptcy

Bankruptcy is a scary word but can be a viable option for some. If your budget shows that you simply don't have the income to support your monthly living expenses, that you have no way of increasing your income, and that you don't have enough assets you can sell to raise the money you need, you may qualify for a discharge of your debts through a bankruptcy petition. It's important to consult a reputable bankruptcy attorney to discuss your situation. Prepare a thorough and accurate budget first. That will expedite your consultation.

Option 4: Debt Settlement

Debt settlement is a very risky option and is not recommended for most situations. The company negotiates to pay a lump sum that is less than the actual amounts owed, which can severely damage your credit score. You'll stop paying your creditors altogether, and instead deposit funds into a separate account (often charging high fees). Once there are enough funds in the account, the company negotiates settlements for less than the full balance owed. This process will usually take 2 to 4 years, and during that time, the accounts will likely still show as delinquent on your credit reports.

Creditors are under no obligation to accept settlement offers and can sue you at any time. Accounts paid through these programs are listed as “settled” on the consumer's credit report and will remain there for 7 years.

Settlement companies typically charge very high fees, which can be as much as 15% to 25% of the debts enrolled in their program. Finally, if your creditors forgive more than \$600 in debt, you'll probably receive a Form 1099C from the IRS. The forgiven debt will count as additional income.

So, Which Option is Best for Me?

There are no “one-size-fits-all” options when it comes to debt relief, but as you can see, some options are far riskier than others. To help navigate your options, call one of our certified debt specialists for a free consultation. Our counselors will review your budget and help you make the decision that's best for you and your family. We'll only suggest a Debt Management Plan if it's in your best interest. You can call a counselor now at (800) 527-7595, or click here to schedule your appointment online.