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STUDENT LOANS

March 16, 2023

Shepherd FINANCIAL

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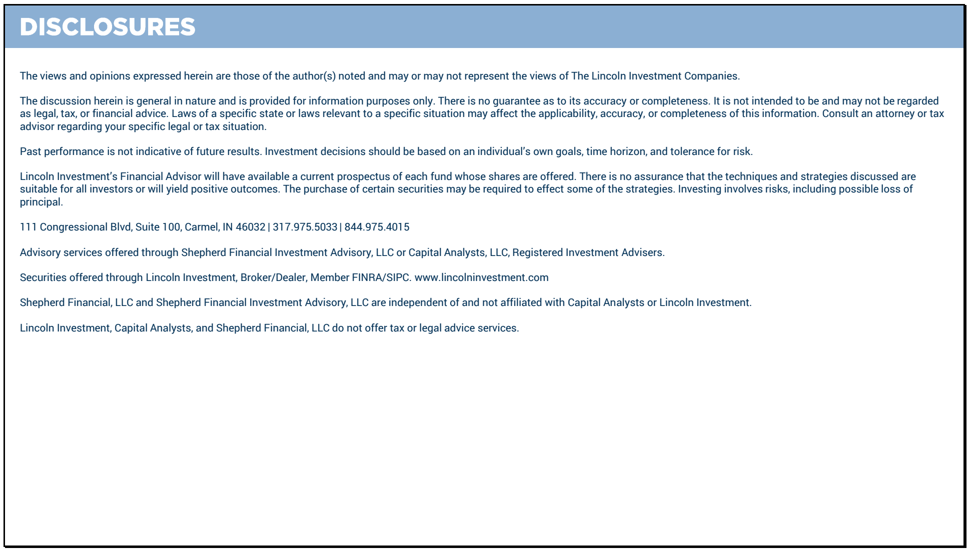

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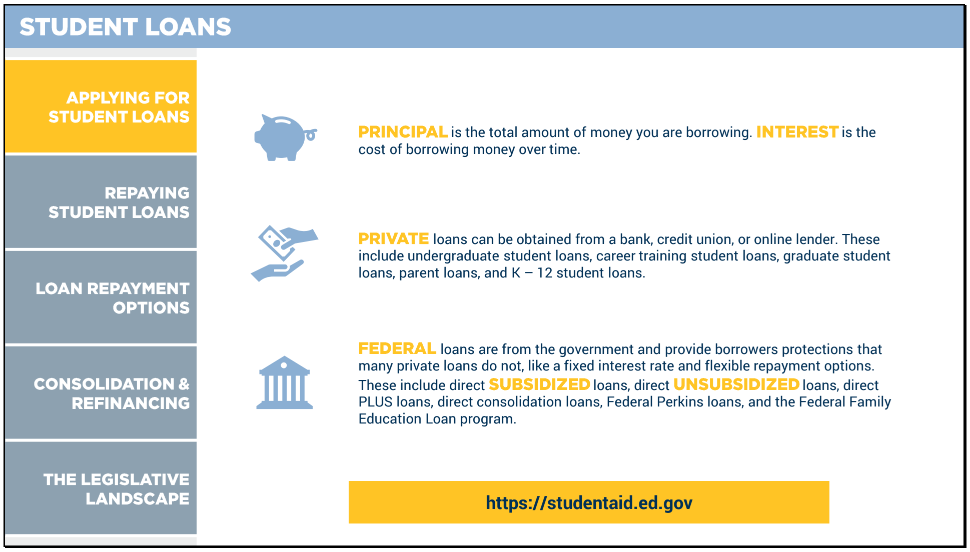

Today, we're giving you a very high-level overview of student loans – we'll explain some key terms, discuss how payments are applied, the different kinds of payment options, and even fill you in on some recent legislation that could make a difference in your lives. Be sure to visit the official US Department of Education's Federal Student Aid website listed at the bottom of the slide for more information.

Let's start with an important term we're going to use quite a bit: principal. This is the total amount of money that you are borrowing. And interest is the cost of borrowing money over time. Interest rates are expressed as a percentage and typically compounded daily, meaning the interest rate is divided by the number of days in the year, and you're charged each day based on the outstanding balance of your loan.

When it comes to borrowing, there are federal and private loans. You apply for private loans through a bank, credit union, or online lender, while federal loans are from the government and provide borrowers protections that many private loans don't, like a fixed interest rate and flexible repayment options. Additionally, federal loans can be subsidized or unsubsidized.

For subsidized loans, your interest is paid by the government while you're in school, so the balance of the loan doesn't grow. Unsubsidized loans are a different story, and interest accrues from the date the loan is initiated. The interest builds up, meaning you wind up with a higher loan balance when you graduate than when you started. However, you do have the option of making payments while you're still in school in order to pay off this interest as it accrues.

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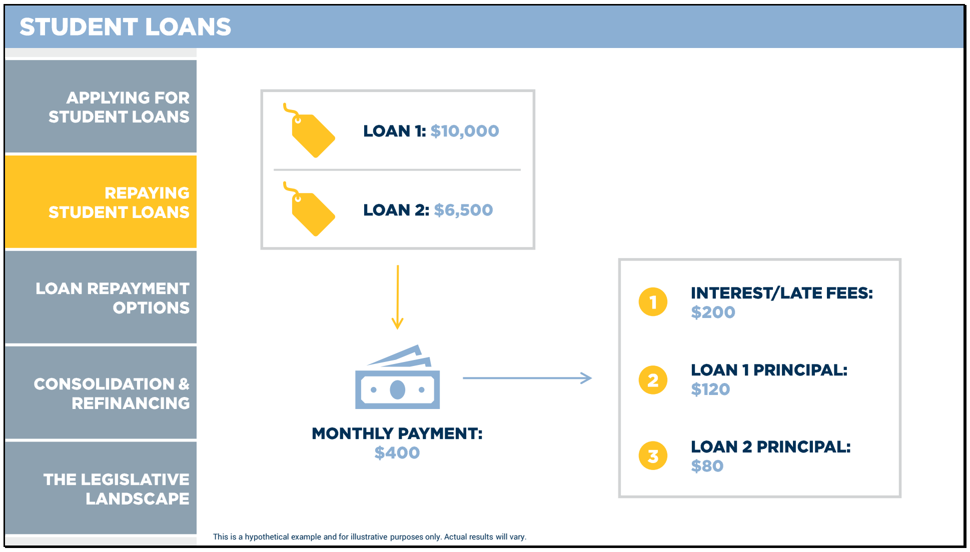

That's a good transition into repaying student loans. Let's look at how payments are applied. When you receive a bill, it'll show you how much you need to pay each month. It will also show the type or types of loans you have, how much money was borrowed, what your interest rate is, and what kind of repayment plan you're on. No matter who your servicer is, there are certain rules everyone must follow when it comes to applying payments. First, your payment is applied to outstanding interest and any late fees you may have. Then any remaining amount is applied to the loan principal.

Looking at the example on the screen, you have two loans. One is $10,000, and one is $6,500. Your total monthly payment due is $400, so you pay $400. We'll say the first $200 of that goes to cover interest and any late fees. The remaining $200 is applied to your two loans - $120 to the $10,000 balance and $80 to the $6,500 balance. How did we get to those numbers? Add $10,000 and $6,500 for your total loan balance of $16,500. Then divide $10,000 by $16,500 – it's 60% of your total. And what is 60% of $200? $120.

Now, if you're wondering why most or even all of your payment goes to interest, I'll tell you: interest never stops. And since the payments must first be applied to interest and late fees, only the portion of your payment exceeding those is applied to the loan principal. If you've missed or skipped at least one payment, you'll be playing catch up to cover the accrued interest.

Of course, you may want to pay more than your minimum amount. These are called excess payments. And if you're choosing to make an excess payment, you can define how you want that payment applied. It can either go toward accrued interest since your last payment or the principal of the loan with the highest interest rate. Your personal situation will help dictate which one might be the better option for you. Excess payments can help you cut down on accrued interest and pay your loan back more quickly – meaning you pay less in total.

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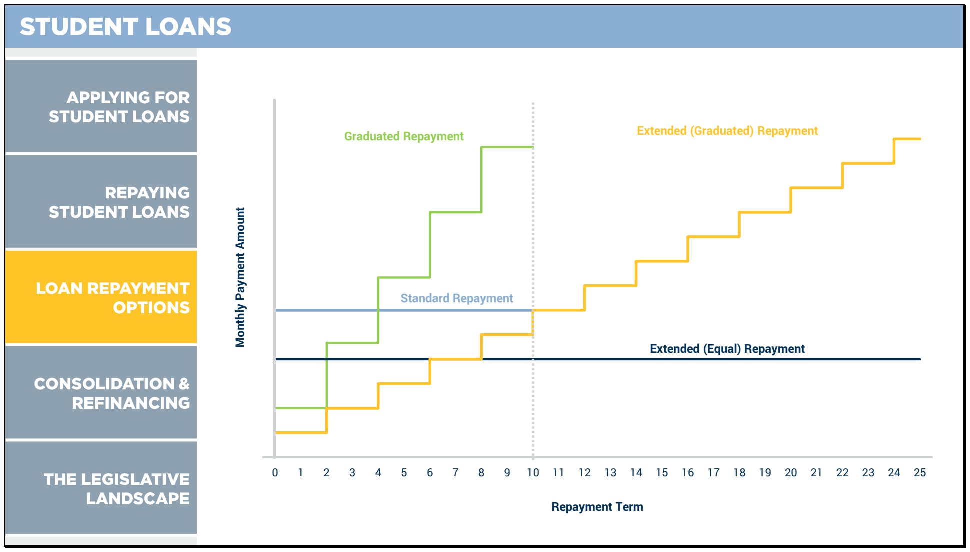

When it comes to repaying your loans, you need to understand your repayment options. There's usually – but not always – a grace period after graduation before you have to start repaying your loans. The standard time is six months, and you should be aware that interest will generally start accruing on those subsidized loans during this time. If you're serving on active duty in the Armed Forces, the six months can be extended by three years.

Once your grace period is over, you might need to apply for a deferment. This allows eligible borrowers to either postpone paying back their loans or temporarily reduce the amount of payments in certain circumstances. These might include unemployment, economic hardship, or going back to school. A deferment may help you avoid defaulting on your loan. You're considered in default if you don't pay your loan according to its terms. For most federal loans, this means you default if you haven't made a payment in more than 270 days. That's not a good place to be. It's reported to credit bureaus, makes you ineligible for federal student aid, causes your loan to be immediately due and payable in full, and some other pretty negative consequences. If you're currently behind in payments or even in default, sit down and talk through your situation with someone right away.

You should know there are different repayment plans to choose from. Repayment plans determine your monthly student loan payment amount, how many years it'll take to pay back what you borrowed, and how much interest you'll pay over the life of your loan. Again, the longer it takes to pay back your loan, the more interest will accrue and increase the overall cost of your loan.

As you can see, some repayment plans are based on your loan debt. They take the balance of your loan and divide it into the chunks it will take to pay your loan over a certain period of time. If you can afford your payments, a standard payment may be your best option. And unless you choose a different plan, this is the one you'll automatically be placed in. These fixed payments will have you paying your loan off in 10 years.

With a graduated repayment plan, over the course of 10 years, your payments start low and increase every two years until the loan balance is paid in full. This is a good option for people who expect to earn more money as they advance in their careers. At the beginning, your payments will go toward interest only and probably won't touch the principal amount of the loan.

Finally, an extended plan allows you to repay your loans over an extended period of time. These payments are made for up to 25 years. This is helpful if you need a lower monthly payment than a standard plan offers. Extended repayment plans are available if your total loan balance is over $30,000 in either direct loans or federal family education loan program loans, but not in combination. You can choose either equal payments over the extended term or graduated payments that increase every two years. Of these options, the standard minimum payment over 10 years means you'll pay back your loan with as little interest as possible.

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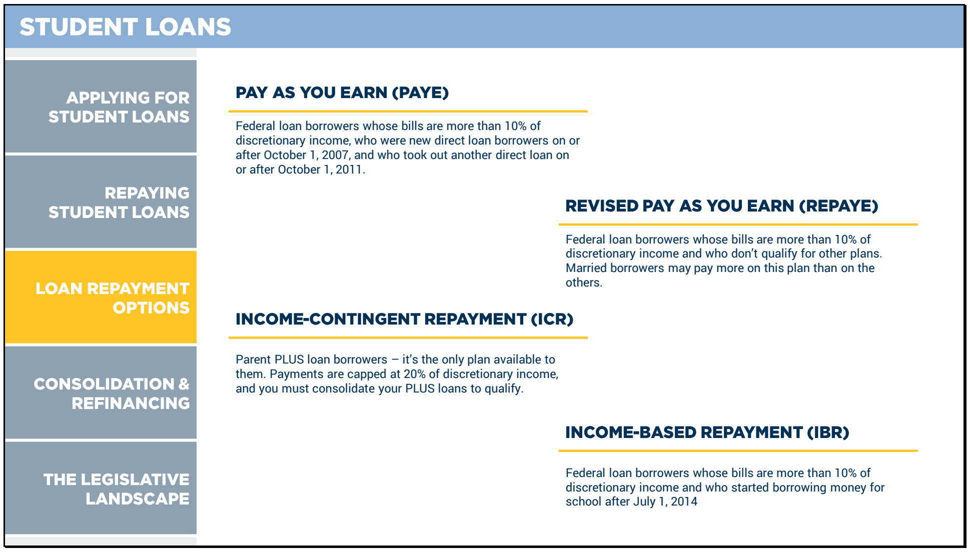

But other repayment plans are based on your income and give flexibility to modify how you repay your loans as you experience life changes. Income-driven repayment plans are designed to make your student loan debt more manageable by reducing your monthly payment amount based on your income and family size. This can be especially helpful if you're ever faced with unemployment or a health or financial crisis. If you need to make lower monthly payments, or if your outstanding federal student loan debt represents a large percentage of your annual income, one of these income-driven plans may be right for you. The three most important things to keep in mind if you're considering income-driven repayment options are these: One, you must recertify your income every year, even after you've initially signed up. Two, you'll end up paying more interest since these plans extend the standard repayment term from 10 to 20 or even 25 years. And three, the amount you're forgiven at the end of your repayment term will be taxed as income.

If you're wondering how you can go about changing your repayment plan, talk to your loan servicer. It will likely involve completing and submitting a form. And depending on your loan servicer, you may even be able to complete this request online.

While student loan debt is one of the few kinds of debt that's considered 'good,' when you're swamped by the money you owe, it's challenging to reach other financial goals, like saving for retirement. It's important to have a plan in place – especially if you're struggling to make payments or have found yourself in default.

It all starts with figuring out your budget and knowing what's available to you. We have lots of resources to help you budget, tackle debt, and prepare for financial emergencies. Last month's webinar is a great place to start. Don't hesitate to ask for help and resources as you focus on paying off your debt.

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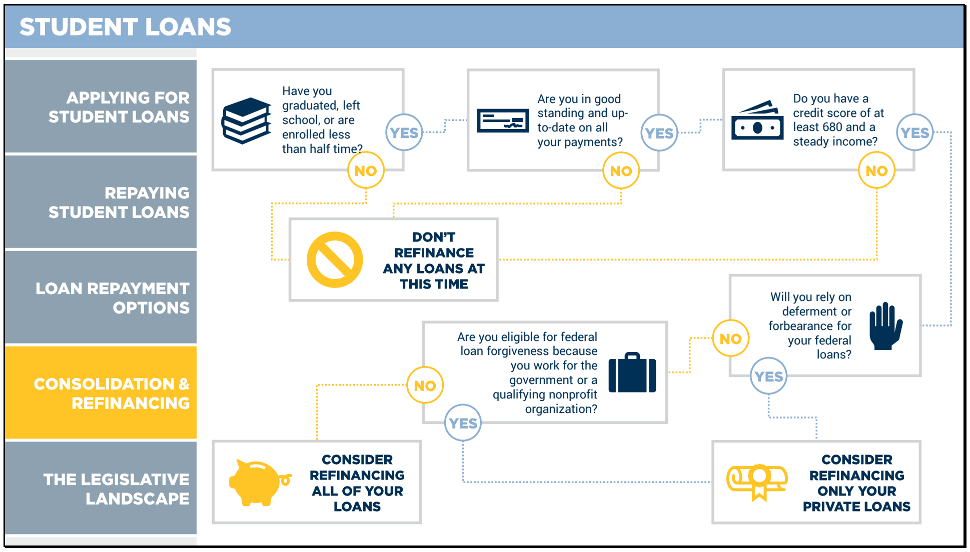

Depending on your circumstances, you may consider consolidation or refinancing. The goal here is to get the ease of a single payment, potentially have lower payments, and, in the case of refinancing, receive a lower interest rate based on your financial history.

Consolidation is only for federal student loans. It won't lower your interest rate or save you money, but you do keep federal loan protections. Plus, there's no credit requirement to consolidate your federal loans.

Unlike the federal government, private lenders offer the option to refinance both federal and private loans. Like consolidation, loan refinancing combines multiple loans into one payment. But it may also save you money by replacing your existing debt with a new, lower-rate loan. You typically need to have at least $5,000 to $10,000 in total loans to consider this option. To qualify for refinancing, you need credit scores in the high 600s, but ideally, even higher. You also need a low debt-to-income ratio and a steady income. Refinancing might not be in your best interest, though, even if you qualify. If you refinance your federal loans into a single private loan, you risk losing certain advantages, such as flexible repayment plans, public service loan forgiveness, and interest-free deferment on subsidized federal loans if you lose your job. An important thing to remember is that refinancing your loans shouldn't cost you money. Reputable private lenders don't charge origination fees or prepayment penalties, and consolidating federal loans through the Department of Education is also free.

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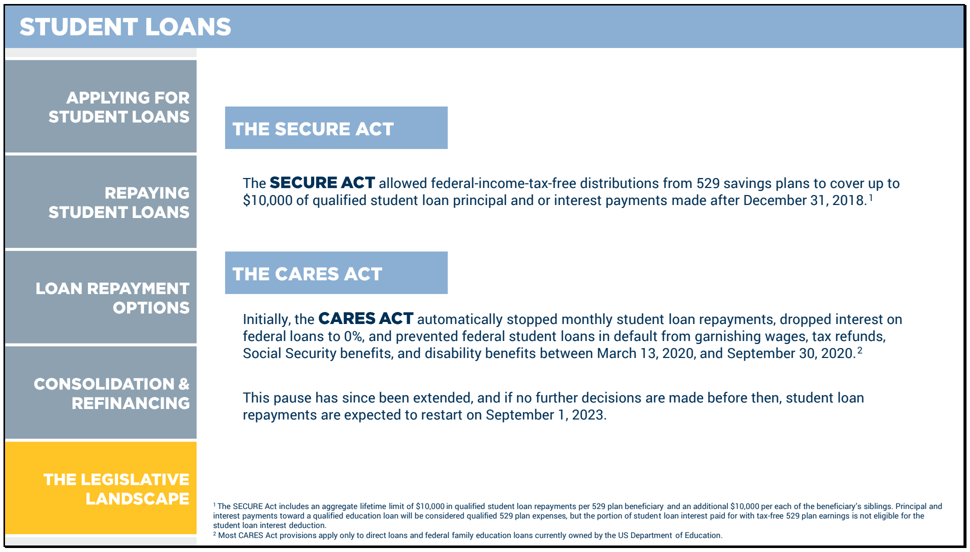

Let's finish up with a pretty interesting subject. Over the past few years, there has been important legislation proposed and passed concerning student loans. The first one that came out is the SECURE Act. Prior to the SECURE Act's passage, the money in 529 college savings accounts could not be used to repay student loan debt. However, the SECURE Act allows federal-income tax-free distributions to cover up to $10,000 of qualified student loan principal and or interest payments made after December 31, 2018. That is $10,000 per 529 account beneficiary, as well as an additional $10,000 per each of the beneficiary's siblings. An important thing to keep in mind here is that principal and interest payments toward a qualified education loan will be considered qualified 529 plan expenses, but the portion of student loan interest paid for with tax-free 529 plan earnings is not eligible for the student loan interest deduction.

Moving on to the CARES Act – put very simply, it provided broad relief for federal student loan borrowers. Be aware that most of these provisions applied only to direct loans and federal family education loans currently owned by the US Department of Education. The CARES Act meant monthly loan payments were not required to be made from March 13, 2020, through September 30, 2020. In fact, if you had auto bill pay set up, your monthly payments were stopped automatically. There was also an interest waiver – the interest on these federal student loans automatically dropped to 0% between March 13, 2020, and September 30, 2020. The CARES Act meant borrowers in default on federal student loans wouldn't have their wages, tax refund, and Social Security benefits – including disability benefits – garnished during this period. The pause has been extended several times by the past two administrations. If no further decisions are made before then, the pause will be lifted, and student loan repayments will restart on September 1, 2023.

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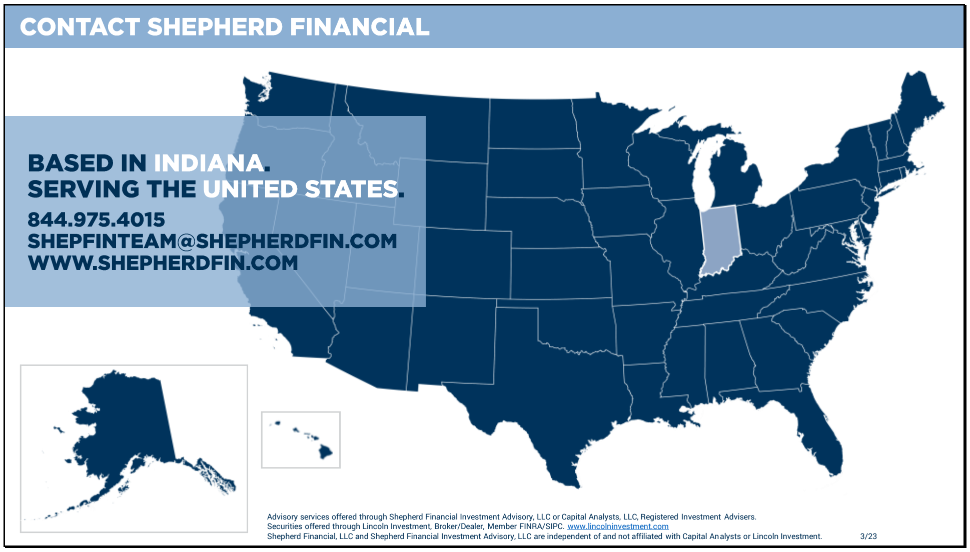

And speaking of, we will take any further questions you might have.

If you'd like to chat with one of our team members, you can always call us at 844.975.4015 or 317.975.5033. Have a great afternoon!

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DEFINITIONS AND DISCLOSURES

Investments in Target Date Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. The principal value in a Target Date Fund is not guaranteed at any time, including on or after the target date, which is the approximate date when investors turn age 65. Should you choose to retire significantly earlier or later, you may want to consider a fund with an asset allocation more appropriate to your particular situation. The funds invest in a broad range of underlying mutual funds that include stocks, bonds, and short-term investments and are subject to the risks of different areas of the market. The funds maintain a substantial allocation to equities both prior to and after the target date, which can result in greater volatility. All investing is subject to risk, including the possible loss of the money you invest. Investments in bonds are subject to interest rate, credit, and inflation risk.

Investing involves risk including the potential loss of principal. No investment strategy can guarantee a profit or protect against loss in periods of declining values. There are some risks associated with investing in the stock markets: 1) Systematic risk - also known as market risk, this is the potential for the entire market to decline; 2) Unsystematic risk - the risk that any one stock may go down in value, dependent of the stock market as a whole. This also incorporates business risk and event risk; and 3) Opportunity risk and liquidity risk. International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. Small and mid-cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility. The illiquidity of the small and mid-cap markets may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities).

Fixed income securities also carry inflation risk, liquidity risk, call risk and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Government bonds and Treasury Bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate. Treasury bills (T-bills) are short-term securities with maturities of one year or less issued at a discount from face value. Treasury bills are the primary instrument used by the Federal Reserve in its regulation of money supply through open market operations. Treasury notes (T-notes) are intermediate securities with maturities of 1 to 10 years. Denominations range from $1000 to $1 million or more. The notes are sold by cash subscriptions, in exchange for outstanding or maturing government issues, or at auction. Treasury bonds (T-bonds) are long-term debt instruments with maturities of ten years or longer issued in minimum denominations of $1,000. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Prior to rolling over assets from an employer-sponsored retirement plan into an IRA, it's important that you understand your options and do a full comparison on the differences in the guarantees and protections offered by each respective type of account as well as the differences in liquidity loans, types of investments, fees, and any potential penalties. A variable annuity is an insurance contract which offers three basic features not commonly found in mutual funds: (1) annuity payout options that can provide guaranteed income for life; (2) a death benefits; and (3) tax-deferred treatment of earnings. When applicable, the tax deferred accrual feature is already provided by the tax-qualified retirement plan (e.g. 403(b), IRA, etc.) The U.S. Securities and Exchange Commission (Investor Tips: Variable Annuities) has suggested that for most investors, it would be advantageous to make the maximum allowable contribution to a tax-qualified retirement plan before investing in a variable annuity. The separate account of a variable annuity is not a mutual fund. While separate accounts may have a name similar to a mutual fund, it is not the same pool of funds and will experience difference performance than the mutual fund of the same or similar name. In addition, the financial ratings of the issuing insurance company do not apply to any non-guaranteed separate accounts. The value of the separate accounts that are not guaranteed will fluctuate in response to market changes and other factors. Variable annuities are designed to be long-term investments and early withdrawals may be subject to tax penalties and charges. None of the information in this document should be considered as tax advice. You should consult your tax advisor for information concerning your individual situation.

Treasury inflation protected securities (TIPS) refer to a treasury security that is indexed to inflation in order to protect investors from the negative effects of inflation. TIPS are considered an extremely low-risk investment since they are backed by the U.S. government and because the par value rises with inflation, as measured by the Consumer Price Index (see below), while the interest rate remains fixed.

The consumer price index (CPI) measures changes in the price level of a market basket of consumer goods and services purchased by households.

Past performance is no guarantee of future results. No person or system can predict the market. All investments are subject to risk, including the risk of principal loss.

Consult your financial professional before making any investment decision.