

# *Paying Back Your Student Loans*

## **Overview**

What you need to know about paying back your student loans.

- When and whom to pay
- Choosing a repayment plan
- Pay on time
- Loan consolidation
- What to do if you can't pay right now
- Cancellation and loan-forgiveness options
- Resolving problems
- Resources

Whether you are a recent or soon-to-be graduate or are already paying off your student loans, the following information can help make repaying your student loans more manageable.

## **When and whom to pay**

Most students finance their educations through federal loans; but you or your parents may also have borrowed from a private or alternative student loan lender, such as a bank or credit union. The terms of each particular loan dictate when repayment must begin and the amount you must pay each month.

Federal loan programs offer a six- to nine-month grace period after you leave school before the repayment period begins. Private loans typically have shorter grace periods, with repayment often beginning within 60 days after you receive the final loan disbursement. But in all cases, you can count on a long-term repayment commitment, so it makes sense to plan how you'll meet that commitment.

- *Set up a record-keeping system.* To understand and track your payment obligations, you'll need to keep up-to-date records of each of your student loans. These records will also come in handy if you want to renegotiate your repayment obligations. Here are some steps to follow to set up a record-keeping system that will help you make sense of your student loans:
  - Create a file for each loan. Include the promissory note you signed when you received the loan.
  - After you leave school, each lender will send you a certified letter spelling out the amount you owe and a repayment schedule. Add this letter to your file. (If you haven't received this information more than a month after you leave school, contact your lender right away.)
  - For each loan, read through the original documents you signed and make sure the certified letter matches your understanding of what you originally agreed to. If you have questions or don't understand the loan documents, call the number that's given in that certified letter. Make written notes of your phone conversation with the lender's customer service representative, including the name of the customer service representative, the date of your call, and the information you receive. Add these notes to your file.
  - Store your student loan files in an easy-to-find place. Some people find it helpful to scan each loan document and keep electronic copies on their computers. It may be easier to find a file on your computer than in a file cabinet.

## 2 • Paying Back Your Student Loans

- *Meet with your school's financial aid staff.* If you have federal student loans, your school's financial aid office may contact you for exit counseling when you graduate, leave school, or drop below part-time enrollment status. You may be offered an online or email option for receiving this counseling, but it's best to meet face to face with someone to be sure that you go over all your repayment options and get the answers to all your questions. In addition to your federal loans, the counselor can also tell you about any private loans that you received through the school and put you in touch with those lenders.
- *Check the National Student Loan Data System.* If you have questions about what loans you have, you can review your federal student loan history through this U.S. Department of Education database. Contact the Federal Student Aid Information Center at 800-4-FED-AID (800-433-3243) or view their database at [www.nsls.ed.gov](http://www.nsls.ed.gov).
- *Watch your mailbox for correspondence from your loan holders.* Give prompt attention to envelopes that arrive from your lender and other financial organizations - - even those whose names you don't recognize. Like mortgages, student loans may be transferred from one lending institution to another or to a loan servicer for processing and collection. Any time there is a change in where you must send your payments, you'll be sent a letter. Keep these letters with your student loan files, along with the billing statements or coupon books you'll receive for each loan. Be wary of offers from lenders who do not currently administer your loans to consolidate at lower (often introductory) rates. Never consider these without getting full information about all costs and rates over the life of the loan and comparing them with existing loan terms.
- *Consider whether you can begin paying during your grace period.* It's tempting to put off repayment, but if you can begin paying sooner, you'll save money in the long run. If you hold a Stafford loan that was subsidized by the government, then the government will continue to pay the interest on your loan throughout the grace period. This means that any money you pay during the grace period will go directly toward reducing the principal amount you owe, which lowers the total amount of interest you will pay over the life of the loan. If your loan is unsubsidized, you don't have to pay any principal during the grace period but interest will be charged. You can pay the interest during the grace period -- if you don't, it will be added to your loan balance.

### **Choosing a repayment plan**

For many, the key to managing student loan payments is choosing the right repayment plan. Most lenders offer a choice of repayment plans and allow borrowers to switch from one plan to another. For each of your student loans, check with the lender to find out which repayment plans are available and whether and when you may change plans.

### 3 • Paying Back Your Student Loans

When choosing a repayment plan, be aware that the lower your monthly payment, the longer it will take you to repay the loan. And the longer it takes to repay the loan, the more you'll be paying in interest. The following are the most common repayment plans for federal loans:

- *Standard plan.* The original plan offered by lenders, and the most popular plan, typically provides for you to pay a fixed amount each month for up to 10 years. A standard plan usually carries a higher monthly payment than other repayment plans, but you pay less interest over time than you would under a plan that provides for lower monthly payments. This plan is a good choice for people who have relatively little debt or enough income to handle the higher monthly payment.
- *Graduated repayment plan.* This schedule begins with lower payments that increase, usually every two years, for up to ten years. It may be a good choice if you expect your income to increase steadily as you progress in your career.
- *Extended repayment plan.* You must have over \$30,000 in Direct or Federal Family Education Loans (FFEL) to qualify for an extended repayment plan. This plan provides for a fixed annual or graduated repayment amount paid over a period not exceeding 25 years. Your payment is lower than it would be with the *standard repayment plan*, but you will end up paying more for your loan in the long run because of the interest that accrues over the longer repayment period.
- *Income-contingent, or income-sensitive, repayment plan.* With these plans, your monthly loan payment is based on your adjusted gross income (joint income if you are married and file a joint federal tax return) as well as your family size, loan amount, and interest rate. You reapply for these plans every year so that your payments can be adjusted as your circumstances change. The income-sensitive plan is for up to 10 years. The income-contingent plan can be for up to 25 years. If you do not repay your loan after making the equivalent of 25 years of payments, the unpaid portion will be forgiven. This plan is not available for parent loans.
- *Income-Based Repayment (IBR) program.* This plan is for borrowers who have a partial financial hardship. Your maximum monthly payment will be 15 percent of your discretionary income. Your payments will change as your income changes. It also offers the possibility of forgiveness on any balance unpaid after 25 years of payments. This plan is not available for parent loans.
- *Pay As You Earn Repayment Plan.* This plan is for borrowers who have a partial financial hardship, were new borrowers on or after Oct. 1, 2007, and have received disbursements of Direct Loans on or after Oct. 1, 2011. With this plan, your maximum monthly payment will be 10 percent of discretionary income. Your payments change as your income changes. If you have not repaid your loan in full after you have made the equivalent of 20 years of monthly payments, any outstanding balance on your loan will be forgiven. This plan is not available for parent loans.

## 4 • Paying Back Your Student Loans

Be sure to investigate and understand the federal tax implications of loan forgiveness. More detailed information and calculators are available at the U.S. Department of Education Federal Student Aid (FSA) site. Go to <https://studentaid.ed.gov> and search for “Repay Your Loans.”

If you are considering a private loan, be sure you are aware of the repayment options and terms, including whether there are programs available if you experience financial hardship during the repayment period.

### Pay on time

The most important things you can do when paying off student loans are always paying on time and never missing a payment. Any late or missed payments will show up on your credit report, which could affect your ability to get future loans or credit.

Your loan documents will define how many months of missed payments will cause you to be considered *delinquent*, and how many more missed payments will put your loan into *default*. If you are delinquent, you may lose some of your existing options for managing your current student loan debt. The consequences of default are extremely harsh: Your future wages and even tax refunds might be seized by your lender, you could be sued, and potential employers may be hesitant to hire you if your credit record reflects that you are not able to manage your obligations in a responsible or effective manner. To avoid problems caused by late or missed payments, it's a good idea to do the following:

- *Set up automatic monthly payments from your checking account.* By having your student-loan payments electronically deducted from your bank account, you may even qualify for an interest-rate deduction, offered by all federal and some private lenders.
- *Be sure your loan holder can find you.* Any time you move, be sure to let all of your lenders know your new address so that you will get coupon books, billing statements, or other important notices, such as a change in the address to which your payments must be sent.
- *Communicate with your lender.* If you know you're going to have to miss a payment date, call your loan servicer right away. It's in their interest as well as yours to work out an accommodation, rather than resorting to collection activities.
- *Consider sending additional payments of principal* if you're able. This will help you pay off your student loans more quickly and at less cost.

### Loan consolidation

With consolidation you combine two or more loans (often with different lenders, terms, and repayment schedules) and refinance them into one loan. Consolidation loans may offer lower monthly payments and an extended repayment schedule, along

## 5 • Paying Back Your Student Loans

with the ease of only having to make one payment each month to cover all your student-loan commitments.

Federal loans and private loans cannot be consolidated together; they must be kept separate. The interest rate for a Federal Direct Consolidation Loan is the weighted average of the interest rates on the loans being consolidated, rounded up to the nearest one-eighth of one percent. The rate is fixed for the life of the loan. For more information and to get an idea of what your monthly payments would be if you were to consolidate, use the online calculator at the U.S. Department of Education's website ([www.loanconsolidation.ed.gov](http://www.loanconsolidation.ed.gov)) or call the Federal Direct Consolidation Loans division at 800-557-7392.

You may also be able to consolidate private student loans through a private lender. See FinAid's information about private student-loan consolidation at [www.finaid.org](http://www.finaid.org).

Timing is everything when considering loan consolidation because, generally, you can consolidate your loans *only once*. The few exceptions to this rule include situations in which you take out another student loan later and then wish to consolidate that new loan as well.

### **What to do if you can't pay right now**

If you are unable to make your student loan payments, then you may be able to put your payments "on hold" for a while, through either *deferment* or *forbearance*. In both cases, you need to formally request these options from your loan servicer (the organization that handles your loan), and you *must* continue to make payments until you've been notified that your payment deferral has been granted. Otherwise, you could become delinquent or go into default.

#### **Deferment**

Deferment allows you to suspend your federal loan payment obligation for an extended period of time -- in some cases, up to three years. If you have a subsidized federal loan, the government will cover your interest during the deferment period; if you have unsubsidized loans, interest will continue to build up, or *accrue*, during the deferment period. Deferment is not available if you are already in default and is available only under certain conditions, such as:

- returning to school to study at least part time
- temporary total disability affecting you, your spouse, or a dependent
- enrollment in a rehabilitation program for the disabled
- inability to find full-time employment
- participating in certain government services
- teaching qualifying needy populations
- performing qualifying community service

## 6 • Paying Back Your Student Loans

- working in health care professions, under certain conditions
- a period of economic hardship

Active duty military service qualifies you for an *unlimited* deferment period. You are only eligible to request deferment during active duty and in the 13 months following the conclusion of active duty.

To see if you qualify for a deferment on your federal loan, visit the U.S. Department of Education's Federal Student Aid site (<https://studentaid.ed.gov>), where you can download a deferment application or contact your loan holder. In general, deferment isn't available for private loans, except for medical students who are completing an internship or a residency. But lenders' policies vary, so it's worth a call to your private lender to see if deferment is an option. The policies for state school and private university loans also vary, but they often have deferment options.

### Forbearance

Forbearance is available to some borrowers who may not qualify for deferment; for instance, it may be available even if you are already in default. As with deferment, your repayment obligation is suspended for a time. Forbearance periods are shorter -- no more than a year -- but can be renewed for up to three years. Unlike deferment, whether your loans are subsidized or unsubsidized, you'll be charged interest during forbearance. If you don't pay the interest as it accrues, it will be added to the principal amount that you owe.

You might be granted forbearance if you are:

- unable to pay because of poor health or other unforeseen personal problems
- serving in a medical or dental internship or residency
- serving in a position under the National Community Service Trust Act of 1993
- performing teaching service that would qualify for teacher loan forgiveness
- obligated to make payments on certain federal student loans that are equal to or greater than 20 percent of your monthly gross income.

There may be other conditions that might qualify you for forbearance. For more information, contact your loan holder.

In most cases, lenders are willing to work with you if you show you're willing but temporarily unable to repay your debt. But it's important to continue to make payments on your loan until you've been notified that your deferment or forbearance has been approved, which could take several months.

### **Cancellation and loan-forgiveness options**

The Public Sector Loan Forgiveness Program, in combination with certain repayment programs, reduces the repayment period for student loans to 10 years and then offers forgiveness of the balance if you work in a public service job. This is defined as full-time work (at least 30 hours per week) for:

- nonprofit, tax-exempt 501(c)(3) organizations
- federal, state, or local governments (including the military and public schools or colleges)
- AmeriCorps or Peace Corps

Certain other public service work may also be considered, including emergency management, public safety, law enforcement, public interest law services, early childhood education, public service for individuals with disabilities and the elderly, public health, public education, public library services, and school library or other school-based services.

Outside of the Public Sector Loan Forgiveness Program, there are certain limited circumstances that may qualify you for cancellation or forgiveness of some or all of your student loan. These include:

- permanent total disability
- performing certain federal government service (such as military service)
- performing qualifying teaching services or other services to designated populations
- working in certain health care professions
- attending a school that closed while you were enrolled, preventing completion of your program.

To determine if you qualify for loan forgiveness or cancellation, contact your lender or the Department of Education's Debt Collection Services Office at 800-621-3115. If a lender will not offer Public Sector Loan Forgiveness, call the Federal Student Aid Information Center (FSAIC) at 800-4-FED-AID (800-433-3243) and find out if you are eligible to consolidate your qualifying loans into the Direct Loan Program, which is administered by the federal government.

### **Resolving problems**

If you're having trouble with loan payments, don't wait. Contact your loan servicer *immediately*. These organizations are used to dealing with student borrowers who are struggling to make payments, so it's likely that they are familiar with your issues and can offer ways that they can work with you in paying down your debt. Here are some steps to take if you have a problem or need more information:

## 8 • Paying Back Your Student Loans

- *Visit the Federal Student Aid (FSA) website (<https://studentaid.ed.gov>).* This site is a good first stop if you have any issues with your student loans. The site maintains a checklist of common problems and the actions you should take and the documents you should gather to resolve these problems.
- *Deal directly with your loan servicer.* If you don't know which organization(s) are servicing your loan(s), you can research your account information at the National Student Loan Data System website ([www.nslds.ed.gov](http://www.nslds.ed.gov)).
- *Contact the FSA ombudsman.* If you have already contacted your loan servicer(s) and you still are unable to resolve an issue, you might wish to contact the FSA Office of the Ombudsman, which could help you and the loan servicer communicate better. Information about how to contact the ombudsman can be found at U.S. Department of Education's Federal Student Aid website (<https://studentaid.ed.gov>). Note that the ombudsman's office will not relieve you of your responsibility to repay your student loan, but the staff can assist you in dealing with your lender.
- *Consider loan rehabilitation.* If you have defaulted on your student loans, you may have the option of consolidating, regaining eligibility for federal student aid, and rehabilitating your loans after default. For more information on loan rehabilitation, see FinAid ([www.finaid.org/loans](http://www.finaid.org/loans)) and the U.S. Department of Education's Federal Student Aid (<https://studentaid.ed.gov/repay-loans>).

### Resources

Here are some websites with information about planning the repayment of your student loans:

#### **Federal Student Aid**

<https://studentaid.ed.gov>

This website of the U.S. Department of Education is a portal to all information on federal student loans and repayment programs, including the IBR and Public Sector Loan Forgiveness Programs. This site also provides links to many loan servicers and includes advice for those who are already in default on repayment of student loans. You can also call the Federal Student Aid Information Center (FSAIC) at 800-4-FED-AID (800-433-3243).

#### **FinAid!**

[www.finaid.org](http://www.finaid.org)

This public service website has helpful information on financial aid and student loans.

#### **Mapping Your Future**

[www.mappingyourfuture.org](http://www.mappingyourfuture.org)

This public service website sponsored by the financial aid industry provides college, career, and financial aid information and services for students and families.

**Project on Student Debt**

*www.ibrinfo.org*

The website of this nonprofit and nonpartisan organization offers information about the federal IBR and Public Sector Loan Forgiveness programs and includes a useful calculator.

Reviewed April 2014 by Tracy Edgell-Horvath, MA, CEAP, AFC®, CHC®. Ms. Edgell-Horvath is an accredited financial counselor with a master's degree in counseling psychology. She is a financial consultant with Ceridian Corporation.