



# Student Loan Repayment Options for Military Borrowers

## Getting Started

### Determine Debt Balance

The first step to managing student loan debt is for the borrower to take stock of where they stand with their debt. Student borrowers often draw loans from multiple sources. With military moves, address changes, variable due dates, and the passage of time, it is easy to lose track of one or more outstanding loans. It is important to know how much is owed, and to whom, so the borrower can stay on top of repayment.

### Identify Loan Servicers

Not only will most students will have been issued multiple loans, each may be assigned to a different servicer. A loan servicer collects payments from borrowers. Any or all of colleges or schools attended, banks and other lenders, or private companies specializing in loan management and operating under contract can be student loan servicers. Borrowers should make sure they know, and have contact information for, their loan servicers. All requests for repayment relief or change of repayment plan start with the loan servicer.

### Consider Options

Most repayment plans are specific to one or more loan programs and cannot be used with others. Although most service members and family members will have been funded by just a few of them, there are more than 20 different federal student loan programs under repayment at the present time.

### Stay Current with Loan Payments

The standard repayment schedule for student loans is 120 equal monthly payments, or 10 years. The interest rate on federal loans is fixed at the time a loan is signed and does not change during the life of the loan. Some private loans have adjustable rates. Borrowers should never reduce or change payments until they are

directed to do so by loan servicers. Delinquency and/or default on student loans can have severe negative consequences for future credit, housing options, and employability.

### Build a Spending Plan

Borrowers knowing their current situation includes accounting for more than just their student loan debt. To ensure that they understand their overall financial status, borrowers should make a budget or spending plan. This will help them see how student loan payments and debt fit in to their current financial spending.

## Student Loan Types

### Federal Loans

Federal student loans fall into two categories:

- Direct Loans: “Direct” means that the federal funding comes to the financial aid office of the school or college rather than being funneled through a commercial bank. Direct Loan programs include Direct Subsidized Loans, Direct Unsubsidized Loans, PLUS Loans, and Direct Consolidation Loans. These loans may also be referred to as “Stafford Loans.”
- Perkins Loans: Perkins Loans are small, need-based loans for students with exceptional need. The money for Perkins Loans comes from the Department of Education but is serviced by the school or college that offers the loan. The school, college, or university with money to lend establishes the guidelines for need and services the loan.

Private Education Loans: Privately issued student loans—also called “alternative student loans”—are interest-generating instruments promoted by banks and other lenders. Private loans offer fewer consumer protections and fewer opportunities to reshape payment terms. Like the loans people take out for houses and cars, a student’s credit

score influences the terms of private loans, and interest accrual begins immediately on disbursement. The terms of the loan may include increasing interest over time.

## Management Options

### **Servicemembers Civil Relief Act (SCRA)**

The SCRA caps at 6% the interest rate on all debts contracted before coming on active duty. This includes student loans—federal and private—as well as consumer loans and credit cards. The SCRA also applies to National Guard and Reserve personnel, whether in state or federal service.

### **College Loan Repayment Program (CLRP)**

Under the College Loan Repayment Program (CLRP), enlisted service members may be eligible for full or partial repayment of postsecondary educational loans up to \$65,000 based upon their rate and the specific terms and conditions listed on the original enlistment contract. (Note: This benefit may not be available to all Airmen.)

### **Public Service Loan Forgiveness**

The Public Service Loan Forgiveness (PSLF) program may help service members who intend to make the military a career and/or to transition into jobs in the public or nonprofit sectors. Under PSLF, borrowers who make 120 consecutive on-time, income-based loan payments while working in public service can have the remainder of their student loans forgiven. The forgiven portion may count as income and may be taxed. There may be work documentation required for PSLF. Borrowers should check with their loan servicers for specific information.

### **Deferment**

Under certain conditions, payment on the principal of student loans may be suspended for a period of time. Loans may be deferred for up to three years while borrowers continue their education, serve on active duty, or deal with a financial hardship. The loan servicer determines the documentation requirements. Private loans may also have deferment options.

### **Forbearance**

Forbearance, or the suspension of payments, may be granted to borrowers who do not qualify for deferment or who have exhausted deferment options. Some private lenders may have forbearance options, as well.

### **Graduated Repayment**

Graduated repayment structures a student loan so that the borrower pays less in the loan's early years and more later on, when the borrower is presumably better established financially. The term of a graduated repayment plan is 10 years, or 120 months, the same as a standard repayment plan. Because the principal does not decrease as quickly, the total cost of borrowing at the end of 10 years will be higher.

### **Extended Payment**

An extended payment plan can reduce payments by spreading them over a period of up to 25 years. Most federal loans qualify for extended repayment. However, the borrower must owe more than \$30,000 to be considered. Extended repayment plans can also be graduated. Payments will be lower with an extended payment plan, but the total cost of borrowing (principal plus interest paid) will be much higher.

### **Payment Reductions**

Income-related payment options differ by the loan program or programs to which they apply, the conditions borrowers must meet, and the length of the payment schedule. They also have procedural and benefit differences. This includes the Pay As You Earn (PAYE) plan, which sets the borrower's payments using a formula based on discretionary income, and other income-driven repayment plans.

### **Consolidation Loans**

Consolidation loans may be available to combine student loans into a single payment under one servicer. The effective interest rate is usually a little higher than what you may have been paying and the term of the loan may be extended—up to 30 years—which means that the cost of the borrowed money will be higher in the end. You can consolidate loans only once.

## Useful Websites

- **Consumer Financial Protection Bureau:** [www.consumerfinance.gov](http://www.consumerfinance.gov)
- **Federal Student Aid Ombudsman:** <https://studentaid.ed.gov/sa/repay-loans/disputes/prepare>
- **National Consumer Law Center:** [www.studentloanborrowerassistance.org](http://www.studentloanborrowerassistance.org)
- **National Student Loan Data System (NSLDS):** <https://www.nsls.ed.gov>
- **U.S. Department of Education Federal Student Aid:** <http://studentaid.ed.gov>
- **U.S. Department of Education Loan Default Resolution Group:** <https://myeddebt.ed.gov>

## Other Resources

### CFPB Private Education Loan Ombudsman

Email: [CFPBOmbudsman@cfpb.gov](mailto:CFPBOmbudsman@cfpb.gov)

Phone: 1-855-830-7880

TTY: 202-435-9835

Fax: 202-435-7888

### Student Loan Repayment Estimator

<https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action>

### Direct Loan Consolidation information

Phone: 1-800-557-7392

TTY: 1-800-557-7395

<https://studentloans.gov>

