

PAYING OFF STUDENT LOANS

Student Loans and Your Financial Future

Student loans can consume a big portion of your spending plan so, many Service members want to pay them off as soon as possible. This handout will cover the basics of student loans, common strategies to pay off your loans, and provide you with helpful resources if you need additional assistance.

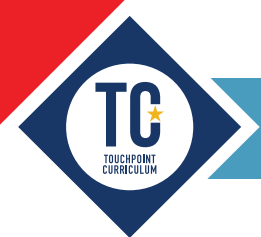
Student Loans 101

There are two major categories of student loans — federal and private. Federal student loans are provided by the government, and often distributed through the school or college’s financial aid office. Private loans, on the other hand, are offered by banks, credit unions, and other financial institutions to help pay for college. Generally, private loans tend to be more expensive and have less flexibility in repayment than federal loans. You will have to pay back the money you borrow plus interest for either type of loan. Follow the steps below to get started.

Determine Debt Balance: The first step to managing your student loan debt is to know where you stand. Frequent moves, address changes, variable due dates, and passage of time can make it challenging to keep track of your outstanding loans. It is critical to know how much you owe and to whom to stay on top of repayment.

Identify Loan Servicers: It is possible that you have multiple loans, potentially assigned to different servicers whose job it is to collect payments from borrowers. Servicers could include schools attended, banks and other lenders, or private companies. Make sure you know your loan servicers and have their contact information. If you need help identifying your loan servicers, request a copy of your credit report to identify reporting loans. It is also important to know whether you have federal or private student loans. Pay attention to correspondence from your servicer as they may make you aware of upcoming changes such as a change in servicer.

Build a Spending Plan: Know your overall financial situation and how your student loan debt fits into the picture. Evaluate your spending so you know how much money is coming in and going out, and adjust your plan as needed.



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Management Strategies

Review the strategies and programs described below to help manage and pay off your student loans.

Be Smart About Payments

The standard student loan term is 120 equal monthly payments (10 years). Many Service members want to pay off student loans as soon as possible and may pay more than the minimum monthly payment. Talk with your loan servicer before changing your payment amount. Delinquency and default can have negative consequences on your credit score, housing options, and employability. Consider setting up your student loan for automatic payment from your bank account. This will help ensure your payments are made on time.

Take Advantage of Repayment and Forgiveness Programs

Servicemembers Civil Relief Act (SCRA):

- This act requires lenders to cap the interest rate of all pre-service debt at 6% while the Service member is on Active Duty; Reserve members are eligible
- Includes federal and private student loans, consumer loans, and credit cards

College Loan Repayment Program (CLRP):

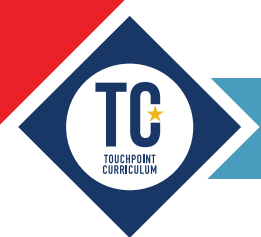
- Program for enlisted Service and Reserve members
- Service branch will repay up to \$10,000 for student loans incurred before enlistment
- Terms and conditions listed in original enlistment contract

Public Service Loan Forgiveness:

- Balance of your federal Direct loans may be forgiven
- Must repay your loans under an income-driven repayment plan
- Must be employed full time in qualifying government or nonprofit public service organization and make 120 qualifying payments (10 years) after October 1, 2007
- Must submit employment certification for Public Service Loan Forgiveness to determine eligibility.

0% Interest During Deployment:

- Service and Reserve members may be eligible to have their student loan interest rate reduced to 0% while serving in hostile area
- Up to 60 months with required documentation



Evaluate Repayment Options

Graduated Repayment

- Borrower pays less in early years of repayment and more later as they become more financially established
- Ten-year term with cost of borrowing higher than a standard repayment plan

Extended Repayment

- Payment term extended up to 25 years, must owe more than \$30,000 for consideration
- Payment is reduced but total cost is much higher due to interest

Income-Driven Repayment Plans

- Income-driven plan; differs by loan program, conditions, and payment schedule
- Four options: Saving on a Valuable Education (SAVE) Plan, formerly the REPAYE Plan, Pay As You Plan (PAYE), Income-Based Repayment (IBR), and Income-Contingent Repayment (ICR)
- Depending on plan, monthly payments are 10% – 20% of borrower's discretionary income with 20 – 25 year terms.

Saving on a Valuable Education Plan (SAVE) formerly (REPAYE)

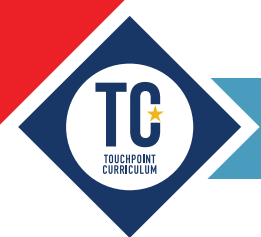
- Monthly payment equals 10% of borrower's discretionary income;
- Outstanding balance forgiven if not repaid in full after 20 years (undergraduate study) or 25 years (graduate or professional study)
- Payments are recalculated each year and are based on updated income and family size

Pay As You Earn Plan (PAYE)

- Monthly payment equals 10% of borrower's discretionary income
- 20-year term
- Payments are recalculated each year and are based on updated income and family size

Income-Based Repayment (IBR)

- Must have high debt relative to your income
- Monthly payments will be 10% or 15% of borrower's discretionary income
- Outstanding balance forgiven if not repaid in full after 20 or 25 years depending on when loan is first taken (may have to pay income tax on any amount forgiven)
- Payments are recalculated each year and are based on updated income and family size



Income-Contingent Repayment (ICR)

- Monthly payments will be the lesser of 20% of borrower's discretionary income or the amount borrower would pay on a repayment plan with a fixed payment over 12 years
- Outstanding balance forgiven if not repaid in full after 25 years
- Payments are recalculated each year and are based on updated income and family size

Consolidation Loans

- Combines student loans into a single payment to one servicer and can only consolidate once
- Usually a little higher interest rate and term can be extended up to 30 years
- Financial experts advise against consolidating federal and private student loans together into a private loan because there is a loss of federal protections, repayment and forgiveness options

Understand Options for Delaying Repayment

If you are having difficulty making your student loan payments, you may need to consider a loan deferment or forbearance. It is important to know that interest will continue to accrue on your student loans and delaying repayment could cost you more money long term.

Loan Deferment:

- Payments may be suspended up to three years if certain conditions are met
- Reasons could include financial hardship, Active Duty military service, or continued education
- Loan servicer determines necessary documentation

Forbearance:

- Suspension of payments due to exhausted deferment options or borrower doesn't qualify for deferment

You should be aware of all your options and of the consequences before selecting a repayment option or loan consolidation. Contact your loan servicer or private loan lender to discuss which option is best for your situation. The Federal Student Aid website (<https://www.studentaid.gov/manage-loans/repayment/plans>) contains detailed information about repayment and consolidation loan options for federal student loans.

Resources:



- Consumer Financial Protection Bureau (CFPB):
<https://www.consumerfinance.gov/paying-for-college/repay-student-debt>
- Federal Direct Consolidation Loan:
<https://www.studentaid.gov/app/launchConsolidation.action>
- Federal Student Loan Repayment Estimator:
<https://studentaid.gov/loan-simulator>
- Federal Student Aid Repayment Options:
<https://www.studentaid.gov/manage-loans/repayment/plans>
- Federal Student Aid Ombudsman:
<https://www.studentaid.gov/feedback-center>
- Public Service Loan Forgiveness (PSLF) Program:
<https://www.studentaid.gov/manage-loans/forgiveness-cancellation/public-service>
- U.S. Department of Education Loan Default Resolution Group:
<https://myeddebt.ed.gov>