FRP
FINANCIAL READINESS PROGRAM

PAYING OFF STUDENT LOANS

GETTING STARTED

Determine Debt Balance: The first step to managing your student loan debt is to know where you stand. 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 you owe, and to whom, so you can stay on top of repayment.

Identify Loan Servicers: Most students have multiple loans, each potentially assigned to a different servicer. A loan servicer collects payments from borrowers. Student loan servicers may include colleges or schools attended, banks, or private companies specializing in loan management. Make sure you know who your loan servicers are and have contact information for them.

Stay Current with Loan Payments: The standard repayment plan for student loans is 120 equal monthly payments, or 10 years. You should not reduce or change payments until you are directed to do so by your loan servicer. Delinquency and default on student loans can have negative consequences for future credit, housing options, and employability.

Maximize Use of Automatic Payments: Have your loan payment automatically deducted from your bank account each month to ensure payments are made on time.

Build a Spending Plan: Knowing your current financial situation includes accounting for more than just your student loan debt. You should make a spending plan to ensure that you understand your overall financial status. This will help you see how your student loan payments fit into your current 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, Direct PLUS Loans, and Direct Consolidation Loans. These loans may also be referred to as "Stafford Loans."
- **Perkins Loans:** These are small, need-based loans for students with exceptional need. The money comes from the U.S. Department of Education but is serviced by the school or college offering the loan.

Private Education Loans

Private loans are offered by non-government institutions — such as banks, credit unions and colleges. They're usually more expensive and less flexible when it comes to repayment.

MANAGEMENT OPTIONS

Servicemembers Civil Relief Act (SCRA): The SCRA caps the interest rate on debt obtained prior to your military service at 6% during periods of 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, if called to active duty. Check with your installation's legal services office about how the SCRA may apply to you.

College Loan Repayment Program (CLRP): Under the CLRP, enlisted Soldiers may be eligible for assistance to repay postsecondary educational loans based upon their rate and the specific terms and conditions listed on their original enlistment contract. The Army will repay up to $10,000 for student loans obtained prior to enlistment. The National Guard and Reserves also offer the CLRP.

Public Service Loan Forgiveness: The Public Service Loan Forgiveness (PSLF) program may help borrowers who intend to make the military a career or transition into jobs in the public or nonprofit sectors. If you qualify, the remaining balance of your federal Direct Loans may be forgiven. You must be employed full time in a qualifying government or nonprofit public service organization, including military service, and make 120 qualifying payments (after October 1, 2007). To determine eligibility, you will need to submit a PSLF Employment Certification form.

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 documentation requirements. Private lenders may have deferment options too.

Forbearance: Forbearance, or the suspension of payments, may be granted to borrowers who do not qualify for deferment or have exhausted deferment options. Private lenders may have forbearance options too.

Graduated Repayment: Graduated repayment structures a student loan so that the borrower pays less in the early years of repayment and more later on, with the idea the borrower is better established financially. The term of a graduated repayment plan is 10 years. Because the principal does not decrease as quickly, the total cost of borrowing at the end of 10 years will be higher than a standard repayment plan.

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-driven repayment options differ by the loan program(s) to which they apply, the conditions borrowers must meet, and the length of the payment schedule. They also have procedural and benefit differences. Options include the Revised Pay As You Earn Plan (REPAYE) and the Pay As Your Earn Plan (PAYE). With both plans the monthly payment is 10% of the borrower's discretionary income but never more than what the borrower would pay under the 10-year standard repayment plan. The repayment period can be 20 to 25 years, depending on the loan and plan.

Consolidation Loans: Consolidation loans combine all student loans into a single payment under one servicer. The interest rate is usually a little higher and the term of the loan may be extended — up to 30 years — which means that the cost of the borrowed money will be more in the end. You can consolidate loans only once. Many financial experts advise against consolidating federal student loans with private student loans to avoid losing options such as federal protections, repayment options, and loan forgiveness.

Before you select a repayment option or loan consolidation, you should be aware of all your options and of the consequences of the option you select. Contact your loan servicer or private loan lender to discuss which option is best for your situation. The Federal Student Aid website (***studentaid.ed.gov/sa/repay-loans***) contains detailed information about repayment and consolidation loan options for federal student loans.

USEFUL WEBSITES

- Consumer Financial Protection Bureau (CFPB):
  consumerfinance.gov/paying-for-college/
- Federal Direct Consolidation Loan:
  studentaid.ed.gov/sa/repay-loans/consolidation#page
- Federal Student Loan Repayment Estimator:
  studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action
- Federal Student Aid Repayment Options:
  studentaid.ed.gov/sa/repay-loans
- Federal Student Aid Ombudsman:
  studentaid.ed.gov/sa/repay-loans/disputes/prepare
- National Student Loan Data System (NSLDS):
  nslds.ed.gov/nslds/nslds_SA/
- Public Service Loan Forgiveness Program:
  studentaid.ed.gov/sa/repay-loans/forgiveness-cancellation/public-service
- U.S. Department of Education Loan Default Resolution Group:
  myeddebt.ed.gov

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