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FINANCIAL PERSPECTIVES

Navigating the Maze of Student Loan Repayment Options

Graduating from college is certainly cause for celebration! But for many graduates, earning a higher education degree has left them with sizable student loan debt. Fortunately, there are a variety of repayment choices available—from consolidation to refinancing—to help lessen this burden.

So, which path should you take when navigating the maze of repayment options? It will depend, in part, on which type of student loans you have: federal or private.

Repayment Plans

Federal student loans. If you've taken out federal student loans, there are quite a few repayment plans available.

- **Standard repayment plan.** Based on your loan balance, with standard repayment you are required to pay a fixed amount each month for up to 10 years.
- **Graduated repayment plan.** With this structure, you make lower payments in earlier years and then increase payment amounts in later years, for up to 10 years. This plan can be helpful for those who anticipate earning a higher income in the future.
- **Extended repayment plan.** This plan extends the amount of years in which you repay the loan, up to 25 years. Here, it's important to note that the amount of interest you pay over the life of the loan will increase with a longer repayment period.
- **Income-driven repayment plan**. Depending on when your loan was obtained, different income-driven repayment programs are available. To participate in one of these plans, you will need to apply and meet the qualification requirements. They include a payment around 10 percent to 20 percent of your discretionary income, with the possibility of loan forgiveness after 20 to 25 years. If a student loan is forgiven through this program, the amount forgiven will be considered taxable income.

More details about these plans, as well as a repayment estimator calculator, are available on the U.S. Department of Education's website at *https://studentaid.ed.gov/sa/repay-loans*. Your loan servicer is also available to assist with implementing whichever repayment option you select.

Private student loans. For those with private student loans, the repayment options are a bit more limited, and all of the details can be found in your original loan agreement. On average, private loan repayment terms range from 5 to 20 years. Unlike federal student loans, private student loans generally do not provide income-driven repayment options or loan forgiveness.

Loan Consolidation

If you have multiple loans, a main advantage of consolidation is that you will have only one payment to one lender.

Federal student loans. With the federal loan consolidation program, you still have access to the federal repayment options discussed earlier. But your interest rate will *not* decrease. The interest rate will be a weighted average of all the rates on the loans, rounded up to the nearest 0.125 percent. Prior to consolidation, carefully review your existing loans for any benefits (e.g., interest rate discounts or principal rebates) or payment credits toward loan forgiveness you may relinquish upon consolidation.

Private student loans. When you meet certain qualifications, private loans can be consolidated into one new refinanced loan, ideally with a lower interest rate.

Loan Refinancing

One reason to think about refinancing is to obtain a lower interest rate, which in turn can lower the amount of interest you will pay over the term of the loan. You should expect to pay a fee to refinance, and the interest rate will depend on current market rates and your credit score.

The only option for refinancing federal student loans is with a private loan. A word of caution here: if you are refinancing from a federal loan to a private loan, you cannot return to a federal loan. Be aware that moving away from a federal loan means you will lose income-driven repayment options and any loan forgiveness that might have been available with the federal student loans.

Loan Forgiveness

Public Service Loan Forgiveness Program. When you work full-time for a qualifying nonprofit or government agency, certain loans (e.g., Direct Loans) may qualify for the Public Service Loan Forgiveness Program in conjunction with an income-driven repayment program that includes 10 years of qualifying payments. The amount forgiven will not be considered taxable income.

Teacher Loan Forgiveness Program. This program may provide loan forgiveness up to $5,000 or $17,500 for certain loans when various qualifications are met, including teaching full-time for five years in a low-income school or educational service agency. Again, the amount forgiven will not be considered taxable income.

Repayment Tips

As you begin to consider these student loan repayment options, it may help to keep these tips in mind:

- Automatic repayments may slightly lower the interest rate with some lenders. It may be worth asking your lender or loan servicer if this applies to your loans.
- A budget can help manage your expenses to free up additional funds to repay your loans or to make extra payments.
- When making extra payments, consider focusing on repaying the student loans with the highest interest rates first.
- Private student loans have fewer repayment options and protections available compared with federal student loans. As such, evaluate if it makes sense to repay private loans ahead of federal loans, taking into consideration the respective interest rates.
- Look for ways to increase your income, such as working overtime or obtaining a second job, to help with extra payments.
- Depending on your income, part of the student loan interest you pay may be tax deductible up to $2,500. (**Please note:** This deduction is not available if someone else can claim you as a dependent on his or her tax return.)
- If you stretch out the number of years you will be repaying the loan, you will increase the amount of interest paid over the life of the loan.
- How you repay your students loans will affect your credit. For example, if you are late or skip payments, that may harm your credit score, which may limit your future ability to obtain a new loan at a reasonable rate or to refinance your existing student loans.

Weigh Your Options

Your repayment and consolidation options will vary depending on the type of loan. Evaluating the current loan interest rate, whether the rate is fixed or variable, and the term of the loan (how many years to repay) will provide a meaningful foundation as you begin to weigh the options.

If it is a struggle to make your student loan repayment, contact the lender or the loan servicer for help. In certain circumstances, the lender may allow a loan deferment or forbearance to delay payments for a limited time.

As always, before making any decisions, a best practice is to consult your financial advisor.

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