

How to Repay Education Loans

Whether you already have a student loan or are just thinking about getting one, it is important to understand the financial consequences of borrowing for college.

Loan Repayment

An education loan for college is just that – a loan which must be paid back with interest. Repayment on federal education loans normally begins when you graduate or drop below half-time enrollment. Borrowers typically have a six-month grace period before repayment is required, which gives you time to find a job. During the grace period, interest continues to accrue on *unsubsidized* federal loans, so if you have the income, it's best to go ahead and start repaying your loans. Using a typical student loan debt of \$20,000, for example, up to \$800 in loan interest may be added to the total during the grace period.

Handling your student loan payments responsibly is important to maintaining good credit. Since you may also be starting a new career, paying credit card bills, and trying to save for the future, you need to plan carefully in order to handle all your loan payments.

How are Federal Loans Repaid?

You can repay your loans by sending monthly checks to the servicer of your loan or you can set up an automatic bank draft, so your payment is deducted from your bank account each month. Bank drafts reduce the chances of a missed payment, which can mean additional fees and higher interest rates. Some lenders and loan servicers offer reduced interest rates if paid by automatic draft.

There are several different options for structuring the amount of your monthly payments on federal loans.

- **Standard Repayment Schedule:** You pay a fixed amount throughout your repayment period, which is usually up to 10 years. If you can handle the monthly payments, the standard repayment plan enables you to pay off your loan as soon as possible. The minimum monthly payment required is \$50, but may be more depending on the amount borrowed.
- **Graduated Repayment Schedule:** This schedule begins with your paying a lower monthly payment amount than the Standard Schedule and then increases the amount on a periodic basis over the repayment period. This structure assumes your salary will gradually increase to help you handle higher payments in the future.



- **Income-Sensitive Repayment Schedule:** Your monthly payments are calculated a year at a time, based on your actual income, family size, and loan amount. After 25 years, any remaining amount of the loan will be forgiven, but you may have to pay taxes on that amount.
- **Income-Based Repayment Schedule:** May cap your monthly loan payments if you are having a hard time meeting basic living expenses. Lender uses your income, family size, and federal poverty guidelines to determine your eligibility.
- **Extended Repayment Schedule:** If your loan balance (including the accrued interest) is over \$30,000 at the time your loan(s) is scheduled for repayment, you may qualify for an extended repayment period of up to 25 years. To be eligible for this schedule, all of your outstanding loans must have been disbursed on or after October 7, 1998.

If you have alternative (private) loans, your repayment schedule will likely be most similar to the standard one above. Alternative loans do not generally have multiple repayment plans from which to choose. Unless you have received your alternative loans and your federal loans from the same lender, you also may have to make two separate monthly payments on these loans.

Student loans are often the first loans you will have. Repaying them responsibly will help you establish good credit and help you qualify for future loans on big ticket items such as a car, house, or even graduate school.

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