SchoolHouse Connection

TIP SHEET FOR YOUNG PEOPLE
PART II: UNDERSTANDING STUDENT LOANS – REPAYMENT

How do I repay student loans?

Although some private lenders may offer various public loan features, like the ability to reduce or halt payments because of a financial hardship, federal student loans usually provide more repayment options for borrowers. Examples include:

- **Graduated repayment:** The payments earlier in the payment timeline are lower and then gradually get larger.
- **Extended payment:** The timeline for repayment is extended beyond the typical 10-year repayment period.
- **Income-based repayment plan:** A monthly payment amount is established, based on how much the borrower is earning.

Some of these plans can increase the **total amount** you ultimately owe because you're still accruing interest on your overall balance, even though each individual payment is lower.

What are some special loan forgiveness options?

- **Teacher Loan Forgiveness Program (TLFP):** If you teach full-time for five complete and consecutive academic years in a low-income school or education service agency and meet other qualifications, you may be eligible for forgiveness of up to $17,500 on your loans.
- **Public Service Loan Forgiveness (PSLF):** If you work full-time for a qualifying employer (government or not-for-profit organization), you may be eligible for forgiveness of the remaining balance on your direct loans after you have made 120 qualifying monthly payments under a qualifying repayment plan.

What should I consider when choosing loan repayment options?

- When do payments begin?
- What happens if I miss a payment?
- At what point does interest accrue?
- How much will I actually owe (accounting for interest rates)?
- How long will it take to pay back this loan?

Should I refinance or consolidate my loans?

Sometimes you can lower your interest rates on federal loans by refinancing or consolidating them. When you refinance, you replace your existing loans with a new private loan at a new interest rate, based on the credit and/or employment history you've built up. Refinancing might also extend your repayment term or lower your monthly payments. But not everyone qualifies. When you consolidate your loans, you combine multiple federal education loans into one loan. The result is a single monthly payment instead of multiple payments.

These options might be the right move for you, but you could lose the protections and flexibility of the different payment plans or the ability to strategically pay off debt that might have higher interest rates or balances. You'll want to consider the various impacts before refinancing or consolidating your student loans.

If you are considering refinancing or consolidating loans, check with multiple lenders first and compare their interest rates and customer services. Use the student loan refinance calculator to see how much you'll save with each rate. Once you find a lender, choose a loan repayment plan that fits your budget. Make sure you have all your documents ready to fill out the application. Some applications will require proof of citizenship (Social Security Number), valid ID number (driver's license or passport), proof of income (pay stubs), and/or official statements for your loans. Lastly, it's important that you keep paying your current loans until your new lender informs you otherwise. It may take a few weeks for the application to be approved, but you don't want to miss a payment in the meantime.

What do I do if I cannot make payments?

Communication is extremely important if you are having trouble making payments. Call the loan office that is listed on your online or paper statements and explain your situation. Most often, they will develop a plan that works for you. Letting weeks go by without communication can result in fines and possible damage to your credit score, which can negatively affect your future car, home, or other loans.

How do student loans affect my credit score?

Student loans are installment loans. By contrast, credit card payments are revolving credit. You can build your credit score by paying installment loans steadily and on time. Paying each month is most important. Paying these loans off early will not help your credit score. Late payments could lower your credit score if the late payments go unaddressed for too long, so, communicating changes in your income or employment situation to your loan administrator is very important.

To view the complete series of tip sheets informed by, and designed for, young people, click here.