

Repaying College Debt

College can be expensive, but it's a smart investment in your future. Higher education typically pays for itself many times over in the form of higher wages and increased job opportunities.

Education debt is an example of "good" debt when handled correctly: borrowing only what you need from federally subsidized sources first, making sure other education loans are approved by your school, and minimizing high interest credit card debt.

For most graduates, college debt definitely impacts life after college. In fact, most student loan repayment schedules last 10 years or more.

What if you could reduce your payment amount significantly by simply making different choices? Sticking to a monthly budget is one of the best ways to lower your overall debt. If you are near graduation or have already graduated, you'll want to understand all of your repayment options. There are many repayment plans that are designed to fit your income, some of which reduce your monthly payment.

How Are Federal Loans Repaid?

You can repay your loans by sending monthly checks to your loan servicer or you can set up monthly automated payments deducted from your bank account. Automated payments reduce the chances of a missed payment, which can mean additional fees and higher interest rates. Sometimes you can get an interest rate discount on your loan if you set up automated payments from a bank account.

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, which start higher than other options but remain the same throughout repayment, this plan enables you to pay off your loan as soon as possible. This option is typically the least expensive repayment option overall, since you pay less interest.
- **Graduated Repayment Schedule:** This schedule begins with a lower monthly payment amount than the Standard Schedule and then increases the amount on a periodic basis. This plan 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:** This repayment option may cap your monthly loan payments if you are having a hard time meeting basic living expenses. The government 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 be able to extend your repayment period of up to 25 years. While the monthly payments may be low, the total cost of the loan is the highest because of the interest charges.

It's important to keep in mind that plans other than the Standard plan will be more expensive overall. The monthly payments may be lower, but interest accrues over a longer period of time. A longer repayment may almost *triple* the amount of interest you pay.

If you have private loans, your repayment schedule will likely be most similar to the standard one above, though you may have the ability to choose a repayment option: immediate repayment of principal and interest, interest-only payments while enrolled in school, or no payments until after graduation.

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.

Don't forget - if you can pay off your student loan early, you could save thousands of dollars in interest!