

LESSON PLAN

STUDENT LOAN REPAYMENT

SUMMARY

It's no secret that student loan repayment is a cause of confusion and stress amongst students. Because there are so many terms that students are unfamiliar with, like grace period, capitalization, consolidation and delinquency, and because there are so many different repayment plans, students may be confused and overwhelmed about how to handle their loans once they enter repayment.

So let's start first with the important terms.

Important Terms

All students who have borrowed federal student loans are required to complete Exit Counseling, which is most commonly done at studentaid.gov. There are some important terms everyone needs to know regarding loans:

Subsidized Stafford vs Unsubsidized Stafford loans

- Subsidized Stafford loan: the government pays (or subsidizes) the interest on your loan while you are in school, and during your grace period.
- Unsubsidized Stafford loan: no government subsidy, so you are responsible for all interest (which starts accruing as soon as your loan is disbursed).

Grace Period

- The 6 months given to you between the time you drop below half-time enrollment (**even if you are still currently enrolled**) and the time you have to start making payments on your federal Stafford loans. This is important to note because many students mistakenly believe they enter repayment only after they graduate, when in reality it is based on your enrollment status.

However, if you have ever left school or dropped below half-time enrollment in the past, you may have already used some or all of your grace period on some or all of your loans. Each Stafford loan has its own 6 month grace period; your servicer(s) can help you determine the status for each.

Principal vs Interest

- Principal is the original loan amount. Interest is the charge for using the money before you pay it back. Each loan payment you make consists of a portion that is applied to principal and a portion that is applied to interest.

Lender vs Servicer

- Your lender is who originally provided your federal loan; the loan servicer is who will handle the billing. The servicer is who you contact to set up a repayment plan, to talk about changing plans, and to ask about options such as deferment and forbearance. Not sure who your loan servicer is? Login to your account on studentaid.gov and the information will be on your dashboard.

Interest Capitalization

- Understanding interest capitalization can make a big difference in how you tackle repayment. Here's how interest capitalization works: when you enter repayment, any unpaid interest that has accrued on your loan will be added to the principal. That new amount is now what you will be charged interest on; it's like interest on top of interest.

You can mitigate interest capitalization by making interest-only payments during your grace period, while you are in school, or during any period in which interest is accruing (like deferment or forbearance).

Delinquency and Default

- As soon as you miss a payment on your federal loans, you are considered delinquent on your account. If you continue to miss payments for 270 consecutive days, your loan then goes into default.

It is critical that you avoid delinquency and default at all costs, as they can have serious and expensive repercussions that trickle down into multiple aspects of your life:

- Damage to your credit score, which can result in difficulty renting, signing up for utilities, obtaining a vehicle, getting preferred rates for insurance or credit cards, or even obtaining certain jobs
- You may lose eligibility for future federal student aid
- Your wages can be garnished, including income tax refunds and social security benefits
- Your school may hold your transcript, meaning you cannot transfer credits to another institution
- You may be taken to court, where you may be responsible for all fees and may have to pay your entire balance with interest immediately

It's important to note here, that all of these terms and the repayment options to be discussed below are applicable to **federal student loans only**. How do you know if you have a federal loan? The best way to check is to log in to studentaid.gov with the same information you used to log in to complete your FAFSA. If you have private loans or any other non-federal loans, you can visit annualcreditreport.com to get a free credit report from each of the 3 credit reporting bureaus. This will allow you to view all accounts that are open in your name.

Please note that if your family members have taken out federal PLUS loans for your education, those loans are in **their** name and thus will not appear in your loan history. They can complete the same steps listed above in order to view their loan information.

Repayment Plans

Federal student loans offer flexibility in terms of multiple repayment options. You can choose a plan that is based on how much you owe, how much you earn, or even the plan that allows for fastest payoff or least amount of interest:

Standard

- Payments are a fixed amount that ensures your loans are paid off within 10 years
- All borrowers are eligible for this plan
- You'll usually pay less over time than under other plans
- If you don't choose another plan, this is the one you will be given

Graduated

- Payments are lower at first and then increase, usually every two years, and are for an amount that will ensure your loans are paid off within 10 years
- All borrowers are eligible for this plan
- You'll pay more interest under this plan than the Standard

Extended

- Payments may be fixed or graduated, and will ensure that your loans are paid off within 25 years
- You must have \$30,000+ in loans to qualify for this plan
- Your monthly payments will be lower than under the 10-year Standard Plan or the Graduated Repayment Plan
- You'll pay more interest over time than under a 10-year plan

Income-Driven Plans

- There are several different types of repayment plans that have payments based on your income. The different plans have different qualifications and different rules, so be sure to read them carefully. You will most likely need to recertify your income every year to remain in these programs, a critical step that many students miss. Learn more about these plans at <https://studentaid.gov/manage-loans/repayment/plans/income-driven>. Also, note that if you wish to apply for Public Service Loan Forgiveness (PSLF), then you need to be enrolled in one of these income-driven plans.
 - Pay As You Earn (PAYE)
 - Revised Pay As You Earn (REPAYE)
 - Income-Based Repayment (IBR)
 - Income-Contingent Repayment (ICR)

It's also important to know that you can change your repayment plan at any time. If your plan isn't working for you, contact your loan servicer and talk about your options! It's important to do this as soon as you are aware that you may not be able to meet your repayment obligation, as you may be penalized for any missing or late payments.

To find the best repayment option for you, contact your loan servicer or use the [Loan Simulator at studentaid.gov](#).

What if I can't pay?

If you are having trouble paying your loans, you have a few options. You can change to an income-driven plan (see above) or you may qualify for deferment or forbearance.

Deferment

- Deferment allows you to temporarily stop making payments on federal student loans. There are several types of deferment including:
 - Economic Hardship
 - In-School

- Military Service
- Unemployment
- Interest may accrue on unsubsidized loans while in deferment
- Deferments last a maximum of three years

Forbearance

- There are two types of forbearance that can be granted up to 12 months.
- A General Forbearance is up to the loan servicer under a few different circumstances
 - Financial difficulties
 - Medical expenses
 - Change in employment
 - Or other reason acceptable to the loan servicer
- A Mandatory Forbearance has to be granted by the loan servicer for several different reasons including
 - AmeriCorps
 - National Guard Duty
 - Student Loan Debt Burden
 - Total student loan debt is more than 20% of your total monthly gross income.

You can find out more details about deferment and forbearance and how to apply for each at <https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief>.

Consolidation

If you have multiple federal student loans, consolidation combines them all into one loan with one interest rate. You need to carefully consider the pros and cons before making a decision about consolidation because once you consolidate, you can't "un"consolidate.

Pros

- Simplify loan repayment by giving you a single loan with just one monthly payment to one servicer.
- Can lower your monthly payment by giving you a longer repayment period - up to 30 years.
- If you consolidate loans other than Direct Loans (like any loans taken out prior to 2010 under the previous FFEL lending program), consolidation may give you access to additional income-driven repayment plan options and PSLF.
- You'll be able to switch any variable-rate loans you have to one fixed interest rate, which will be a weighted average of all interest rates for all the loans being consolidated.

Cons

- You will likely make more payments and pay more in interest than would be the case if you didn't consolidate.
- Your interest capitalizes immediately, making your principal amount higher than if you didn't consolidate.

- May lose certain borrower benefits - such as interest rate discounts, principal rebates, or some loan cancellation benefits - that are associated with your current loans.
- Consolidating your current loans will cause you to lose credit for any payments made toward income-driven repayment plan forgiveness or PSLF.

To ask questions about consolidating your loans before you apply for a Direct Consolidation Loan, contact the Student Loan Support Center at 1-800-557-7394

Loan Forgiveness

There are two different types of loan forgiveness offered for federal student loans. The first is for teachers. “Under the Teacher Loan Forgiveness Program, if you teach full-time for five complete and consecutive academic years in a low-income school or educational service agency, and meet other qualifications, you may be eligible for forgiveness of up to \$17,500 on your [Direct Subsidized and Unsubsidized Loans](#) and your Subsidized and Unsubsidized Federal Stafford Loans.” <https://studentaid.gov/manage-loans/forgiveness-cancellation/teacher>

The next is Public Service Loan Forgiveness. If you are a full-time employee of the federal, state, local, or tribal government OR for a not-for-profit organization AND you have made 120 payments under a qualifying repayment plan, you may be eligible to have the rest of your loans forgiven.

- A couple of notes on PSLF...you have to be in one of the income driven plans; IBR, PAYE, REPAYE, or ICR.
- If you make qualifying payments on your direct loan, then consolidate, none of those payments will count towards forgiveness. If you think you want to consolidate your loans, and apply for PSLF, it makes more sense to consolidate and begin repayment in an income driven plan.
- In addition, you and your employer will need to submit a form called the [Employment Certification Form](#) annually so that you can get credit towards your 120 payments.
- To use the PSLF Help tool, login to studentaid.gov, click Manage Loans, and choose Public Service Loan Forgiveness. You can also download the forms you need from this website.

OBJECTIVES

- Understand words and terms used in repayment
- Learn about repayment options and which one(s) are most appropriate
- Understand how to avoid student loan default
- Identify ways to save time and money on student loans

CORRESPONDING POWERPOINT

[Student Loan Repayment](#)

RESOURCES

Websites

[Inceptia's Exit Counseling Toolkit](#)

- Tools and resources to cover preparing for and entering repayment:
 - Gearing up for graduation
 - Preparing for loan repayment
 - Understanding the basics of student loan repayment
 - Avoiding scams and avoiding default

[Create a custom plan at HeroKnowl.org](#)

[Studentaid.gov](#)

[Loan Simulator at Studentaid.gov](#)

[Repayment Plans at Studentaid.gov](#)

[Annualcreditreport.com](#)

Videos

Financial Avenue videos

- [What is Capitalization?](#)
- [Capitalization Case Study](#)
- [Pros and Cons of Consolidating Your Loans](#)
- [Loan Forgiveness Programs](#)

Federal Student Loan Videos

- [Student Loan Repayment Playlist on YouTube](#)

Supplements

[Loan Types Chart](#)

[Subsidized vs. Unsubsidized Loans](#)

[Financing My Education sheet](#)

[Common Repayment Mistakes](#)

[Inceptia's Great Advice for Grads](#)