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All About Student Loans

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Introduction

How to pay for college is as complicated and important a decision as which college to choose, what to major in and whether to live on or off campus. Because if you don't have (or know where to get) at least $20,000 to go to a state college for four years, your college dreams will be shattered before you even set foot on campus for orientation. Student loans bridge the gap between what you and/or your parents have saved for your education, the scholarships you receive and the part-time work you expect to acquire to complete the puzzle.

The student loan puzzle is also for those who already have student debt and need to determine their options for combining loans, reducing payments and paying off their student loan debt faster than they anticipated. Here's we'll address every aspect of

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student loans, from applying for one to paying it off.

Student Loan Benefits
The benefits to borrowing for your education seem limitless. You'll have the chance to work in your chosen career field because you'll have the money to complete college. If your loans cover all your expenses, you won't have to work as much, or at all, as you otherwise would have planned to while in school. With this newfound freedom, you can concentrate on your studies, work unpaid internships and/or engage in extra-curricular programs where you can explore different career fields that you wouldn't have had time for if you had to work your way through college.

How Student Loans Can Become a Burden
While student loans can help you pay for an education, many former students are learning the hard way that it would have been a good idea to base their student loan on the amount they will be able to afford in monthly payments after graduation.

During this tutorial, current and future students will learn how to obtain and pay off student loans. We'll also consider options available for repayment and consolidation - a valuable piece of information for those already saddled with student debt.

What Can You Afford To Borrow?

You just received your financial aid award letters from the financial aid offices of the colleges you are considering attending, and you're approved for enough student loans that you won't have to get a part-time job. But don't plan your study/party schedule until you've accounted for all possible expenses and verified that your future loan payments won't be too burdensome as you begin life after college.

In this section, you will construct a budget, taking into account all sources of income and your expenses (from tuition to entertainment), and learn how to set limits for student loan borrowing based on your career choices. (Learn everything you need to know about budgeting in our special feature, Budgeting 101.)

Constructing a College Budget
The first task in constructing a college budget is to make sure you're ready to construct a realistic budget you can stick to while you are in college. This isn't just a matter of including all possible categories of spending. You need to be honest with yourself about the amount you will spend in each category.

For example, let's say you decide you only need $100 a month for groceries. In theory, you could eat ramen noodles and macaroni and cheese every day, and then splurge

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with the occasional fast-food hamburger. Skipping the health factors involved in the above diet, would you actually stick to this minimalistic meal plan? (For more tips of shopping cheap, see *22 Ways To Fight Rising Food Prices*.)

Sit down with a close friend who is already in college and/or your family to list all possible expenses and set realistic amounts for each category.

Print the table below and fill in the numbers you estimate for your monthly costs in the first column. Next, request a phone or in-person consultation with a financial aid officer or money management staff member from each of the universities you are considering. Put the new numbers in the university estimate column.

Print a budget for each university you call. If you know someone attending that university, put their numbers into the next column. A great way to get realistic budget numbers for a particular university is to ask the student staff in the money management office or financial aid office what their students spend on a monthly basis. Finally, compare the numbers you've gathered with your original budget in order to create a revised budget column. (For more information on budgeting read *The Beauty of Budgeting*.)

First Semester of School Estimated Budget				
Expense Categories	**Your Original Budget**	**Budget Based on University Staff Estimate**	**Budget Based on other Student's Expenses**	**Your Revised Budget**
Tuition and Fees				
Housing and Utilities				
Groceries/ Meal Plan				
Entertainment				
Clothing				
Books/School Supplies				
Transportation				
Landline/Cell Phone				

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Savings				
Total				

Applying Your Budget to the Affordability Dilemma
Now that you have an approximate total from your revised budget column, you can begin to calculate which colleges you can afford to attend. From your revised semester total, subtract any family or personal contributions you are going to use toward that particular semester, as well as any grants and scholarships you will receive. The final figure is the amount you will need in student loans or from a part-time job to make up the difference.

Reliable Workplace Income
Is the number small enough that you could easily earn enough money to make up the difference? If not, how much would you need? Part-time work can help you with this dilemma. Call the career centers at each university you're applying to and set up a phone appointment to discuss available part-time jobs (and the average local wages) for students like yourself. This should help you devise some realistic expectations for part-time income. (Find out how to fill in what your savings won't cover before dipping into debt. Read *5 Ways To Fund A College Education*.)

In addition to part-time jobs, ask about work-study and co-op programs. Work-study jobs are part-time jobs awarded by the financial aid office. In a co-op job, employers in certain fields hire college students to give them on-the-job training as they pursue their educations. Working in co-op positions gives you real-world experience and an edge over other students when it comes time to find a job. An added benefit is that your co-op employer may offer you a position when you graduate.

Finally, talk to the academic advisor in the department of your prospective major and ask how many hours you can reasonably work and still have time to study. Most advisors will be able to tell you how many hours are expected to be devoted to your courses beyond the classroom. The students working in the office who are studying within your major can also help you with this question.

While reducing your student loan borrowing by earning a few dollars from a part-time job is helpful after graduation, you don't want to sacrifice your grades and overall college experience for lower student loan payments.

Researching Your After-College Income
After you've calculated the final amount you'll need to borrow, you'll still have to determine whether your post-graduate income will be enough to meet your monthly loan payments. Contact your prospective college career office to get current figures

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regarding entry-level employment.

For example, if an entry-level marketing job in your area has an average starting salary of $40,000, and you have $20,000 in student debt at a fixed-interest rate of 6% when you complete college, you'll have a monthly payment of approximately $222. (For $40,000 in student loans at the same interest rate, your monthly payment would be roughly double, or $444). As a single person making $40,000 per year, you'll probably take home between $2,000 and $2,600 a month after taxes. Based on these expected income numbers, construct a budget for after you graduate.

To find housing costs for the cities and neighborhoods where you'd like to reside, search apartment rental sites, call your university off-campus housing department or ask friends who currently live there. (Learn more about finding a place to live in *Easy Ways To Cut Rental Costs*.)

These numbers don't have to be exact - no one has a crystal ball to know exactly where they'll be in four years. However, constructing a post-graduation budget gives you a rough idea of how much you can afford to borrow for your education.

Print the budget sheet below to fill out as you gather information.

Monthly Post-Graduation Budget				
Expense Categories	**Budget Based on Internet Research**	**Budget Based on Friends Who Live in Desired Area**	**Budget Based on University Money Management Office**	**Your Revised Budget**
Student Loans				
Housing and Utilities				
Groceries				
Entertainment				
Clothing				
Personal Care Items/ Grooming				
Medical				

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Transportation/Car Payment/Insurance				
Landline/Cell Phone				
Savings				
Total				

Hard Choices - Reality Check
The sad truth of borrowing based on what you can afford to comfortably pay after graduation is that you may have to rule out your "dream university". However, opting for an affordable university -where you can enjoy extra-curricular activities because you're not working every moment of your life to cover tuition - might be the wisest choice. After all, a more affordable university won't leave you saddled with debt for years to come. (To learn about a savings plan that can help you save for more expensive colleges, read *A 529 Plan Fit For An Ivy League Education*.)

Federal Loans

Before you think about borrowing for college via a private loan, you always want to exhaust your federal loan availability first. This is because federal loans normally have lower, fixed interest rates, no cosigner requirement and better repayment terms - especially if you hit a financial rut while trying to repay your loans. Additionally, the approval process isn't based on an applicant's credit rating; good news for young borrowers with little or no credit history.

In this chapter of the student loan tutorial, you will learn about the various types of federal loans and how they work, how to apply for them, and the basics of loan repayment. (For background reading on the differences between private and federal loans, see *College Loans: Private Vs. Federal*.)

How Federal Loans Work
When you are borrowing via a federal loan, you are automatically approved as long as you meet a short list of requirements (listed at http://www.fafsa.gov/). None of the loan programs requires a credit check, and your - or your family's - income is only important for grants (free money) and subsidized loans (where accrued interest is paid by the government while you are at least a half-time student eligible for financial aid and several other circumstances).

Your loan is disbursed through your university, and the university will write you a check

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or send you a direct deposit for the difference between your tuition and fees and your semester's loan amount. Scholarships or payments you've already made toward your tuition and fees can increase your refund amount. The refund you receive can be used for housing, groceries, transportation and other living expenses.

However, you may have a balance due on your account instead of a refund. A national student loan borrowing limit per individual is set annually. If your tuition and fees for the year are higher than this limit, you will not receive payments unless you made a payment to your account before your student loan arrived. An example of this situation is if you are going to a private school where the tuition is especially high; in this case, your student loan limit may not completely cover tuition and fees, so you will need additional funding alternatives such as private loans.

If you receive grants, the federal grant amount reduces your federal loan limit amount; however, the money balances out because the grant deduction is exactly the same as the free money you received.

Your Best Financial Aid Friend : The FAFSA Application
The most critical action you can take in applying for financial aid for private and public universities is to fill out the Free Application for Federal Student Aid (FAFSA). The FAFSA can be filled out online at http://www.fafsa.ed.gov/, at public libraries, university financial aid offices and high school guidance counselors. No matter which college you decide to attend, this is the universal form you need to fill out. The form is basically an information sheet that gives your prospective colleges an idea of your financial situation. On the form, you'll need to provide proof of your income, along with your parents' income if they currently claim you as a dependent on their tax return. If you are married, you will have to provide proof of your spouse's income.

Here's the complete list of the documentation and information you will need while you are filling out your form:

- Your Social Security number
- Your driver's license, if you have one
- Your W-2 Forms, 1099s, pay stubs, or other documents that show how much you earned in the year prior to the school year for which you are applying. Records of untaxed income, such veterans' benefits and Social Security disability payments, should also be by your side while you fill out your FAFSA.
- Any federal tax return for the year prior to your return. If you are married and didn't file jointly, have your spouse's ready as well. (If the year hasn't ended yet, it's OK to estimate your total annual income.) If you are a dependent, you will also need your parents' tax returns.

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- In addition to U.S. tax returns, tax returns are also accepted for Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, the Marshall Islands, the Federal States of Micronesia and Palau.
- For asset information, also have your investment and bank account statements ready, in addition to mortgage and business or farm ownership information. You don't have to provide asset information if your adjusted gross income is $50,000 or less for parents of dependent students or for independent students.

Filling out the form doesn't imply a commitment to attend any of the schools you select to receive your income and residency information. In addition to loans, the FAFSA is also used to determine grant eligibility. This amounts to free money if you are determined to have enough financial need.

Types of Loans You Can Receive

Perkins Loans

Perkins loans are the absolute best loans you can get from the federal government - if you qualify. These loans are need-based and highly limited. The school gets a limited amount of money from the government and is in charge of distributing these loans based on income reported on the FAFSA form. Perkins loans come with a variety of loan forgiveness programs for taking certain public service jobs after graduation.

Subsidized and Unsubsidized Stafford Loans

While there are loans that parents can take out for their children, subsidized and unsubsidized Stafford loans are two ways for individuals to pay for their own education. A subsidized loan is where your interest is paid by the government until you graduate - as long as you maintain half-time status (take at least six credits per semester as an undergraduate or four credits as a graduate student). A slightly less attractive option are unsubsidized loans, which do accumulate interest while you are in school. However, with either loan, you don't have to make payments until six months after you graduate, with the exception of consolidation, which will be discussed further in Chapter 8.

Parent PLUS Loans

Parents are eligible for unsubsidized, fixed-rate federal student loans to help pay for their children's education. Parent PLUS loans are distributed through both private lenders and from the federal government's direct lending program. Similar to loans granted to the student, eligibility is determined by the information received on the student's FAFSA form. Parent PLUS loans differ in that there is a slightly higher loan origination fee, and interest rates are slightly higher than for loans that are offered directly to students. Parents are ineligible for reduced payments based on their annual income.

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Lenders - Less Is More
If possible, it's best to choose the same lender for all your loans because your monthly payments can be consolidated into one loan. Having one lender will also make it much easier to track your payments and avoid missed payments and late fees.

Federal Loans - Simply Indispensable
If you are considering borrowing for college, fill out a FAFSA. Because of the fixed interest rates and guaranteed repayment terms, a federal loan is your best option. However, keep in mind that student loans are like Halloween candy: if you go overboard, you'll have a student-debt bellyache for years to come.

Private Loans

While federal loans should always be your first borrowing choice, they may not cover your full tuition - never mind lab fees, books, and room and board. That's where private loans come in to fill in the gap. However, private loans are often harder to get and more difficult to pay off.

Like car loans, mortgages and credit cards, private student loans are granted based on a general risk assessment of one's ability to pay back the loan. Because most private loans have variable interest rates, monthly payments can vary throughout your repayment period, making it difficult to gauge exactly what your payments are going to be upon graduation. This uncertainty poses problems when it comes to budgeting for the future.

In this tutorial, you will learn when it makes financial sense to borrow money for your education via a private loan, as well as how to apply, qualify and be as prepared as possible for your eventual repayment responsibilities. But first we'll examine the differences between private loans and the federal loans.

Private Versus Federal Loans

Federal Loans	Private Loans
Fixed interest rates	In general, variable interest rates
Federal government guaranteed loans for banks, so credit checks aren't required	Credit check required

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Universal rules on repayment in case of hardship - no matter who the lender is	Repayment terms depend on individual lender
Exempt from bankruptcy protection	Exempt from bankruptcy protection
Extra fees only charged in case of default	Rates may be raised if you miss a payment
Missed payments are noted on credit reports and can decrease your credit score	Missed payments are noted on credit reports and can decrease your credit score
If default occurs, there is a uniform route to returning your loan to good standing.	If default occurs, it is up to the lender to determine penalties and changes to the interest rate

Federal Loans - Your Best Option
As you can see from the above table, federal loans have many benefits that are not afforded to private loan borrowers. Therefore, it is important to exhaust your federal borrowing limit before considering private loans to fund your education.

When to Apply for Private Loans
Consider private loans only when you are confident that you will follow through with a career choice and make enough to pay back your student loans. Also, make certain you have budgeted for both what your payment will be at the current interest rate, as well as the maximum your payment could be according to your specific contract terms.

Qualifying for Private Loans
Qualifying for a private student loan is similar to qualifying for credit card, mortgage, car loan, or personal bank loan. If you don't have an established credit history and a high credit score, you will need a cosigner who does. The loans are offered by private banks, and you can find private lenders via internet searches, your own bank's loan office, or through your prospective university's financial aid office. (For tips on getting a loan

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without a cosigner, see *Getting A Loan Without Your Parents* and *How To Establish A Credit History*.)

Private Loan Contract Terms
It is extremely important to study the contract terms of your private loan because the terms will vary according to the lender (unlike federal loans, in which the terms are universal). Before signing anything, ask potential lenders for a sample contract to review, and have your prospective university's financial aid counselor review the contract with you. Financial aid counselors know what to look for and can help you decipher whether you are getting a good deal and an interest rate you will be happy with for the long term. What to look for in your contract:

- Your current interest rate terms, the financial index to which your interest rates is tied to plus the additional margin you pay. You need to see what your interest rate is, why and how it can be raised, and how high it could go. While how high your interest can go depends on usury laws for consumer lending, you can get a sense of how high your rate could go by checking the historic rates for LIBOR and PRIME, the two main financial indexes, on the Federal Reserve website.
- What, if any, provisions there are for temporary financial hardship.

Private Loans and Financial Hardship
If you have private loans, how you deal with financial hardship is the same as you would for a mortgage or other non-student loan. Call your lender at the first sign you might have trouble making payments and ask about temporary reprieves from payments or request to temporarily make smaller payments. Also, ask about extending and lowering your payments via a private loan consolidation. The earlier you act, the more likely your lender will work with you. Finally, check your contract to see if there is any mention of options for dealing with financial hardship.

Making Payments
If your private loan lender will not budge on helping you through a difficult financial time, look for other loan vehicles such as credit cards with low balance transfer rates or try to rearrange your budget to make your private loans a priority. For instance, if you have federal loans, request a forbearance or deferment; these loans have much more forgiving terms for financial hardship. (For more on this options, see *Loan Deferment Saves Students From Disaster*.)

Some Final Considerations
Private loans can play as pivotal a role in your education as federal loans. If you've exhausted your annual federal loan borrowing limits, you can take out a private loan to make up with the difference. However, if you can't conceivably repay the loans in the

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future, you need to search harder for scholarships or other ways to pay for your education - or choose a more affordable university.

Loan Repayment

After graduation you'll begin the task of paying off your student loans. This is called entering repayment. The term repayment is used because your lenders made payments to you while you were in school in the form of money deposited into your student accounts at your university to cover tuition and other expenses, normally on a semester-by-semester basis. Then you have to repay the money that was loaned to you.

Luckily, your federal student loans are extremely flexible in setting up monthly payment amounts and the length of your student loan repayment schedule. In this chapter you will learn everything you need to know setting up your repayment schedule.

When Payments Begin
After you graduate, the government doesn't expect you to start paying back your loans before you've had time to find your first post-college job. Thus, a grace period of six months is standard before you enter the repayment phase. Perkins loan borrowers get nine months.

How Repayment Works
Each lender sets up a 10-year repayment schedule based on the amount you owe them. However, keep in mind you may owe amounts to other lenders, all of whom start collecting six to nine months after graduation. Unless you consolidate your loans, you could be making several separate payments to for 10 years. (For more information on consolidation, see *Should You Consolidate Your Student Loans?* and *Debt Consolidation Made Easy*.)

Repayment Options: Direct Loans vs. Government-Guaranteed Loans
While all federal loans are guaranteed by the government and have the majority of the same contract terms (no matter which lender you choose), direct loans come directly from the government and offer additional repayment options to the standard repayment plans offered by all lenders.

Repayment Schedules Available

1. **Standard Repayment**
   Standard repayment is the basic financial aid plan where you have a fixed payment for 10 years.

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2. **Graduated Repayment**
   Graduated repayment is available for both extended (consolidated) repayment and standard repayment. With graduated repayment plans, your payments start out low and increase every two years. However, according to the Department of Education Direct Lending website, the payments will never exceed 1.5 times the standard plan. The advantages to a graduated program are that you can slowly work student loans into your budget, paying more as your income, theoretically, gets larger over time.

3. **Income-Contingent Repayment Programs**
   Programs are available to help graduates who pursue careers, especially in public service, where their income isn't enough to cover standard loan payments. Income-contingent payments are offered only by direct loans. Income-sensitive programs are also offered by private lenders who offer federal student loans. Income-based payments are available from both direct lenders and private lenders who offer federal loans. It is very similar to income-contigent repayment but uses a different formula. Ask your ledner ot go over all your options to find the repayment plan that helps you the most. The repayment program we'll address in this tutorial is income-contingent.

Income-Contingent Repayment
Income-contingent payments are designed to help former students who are having trouble making payments. This government program sets a payment that is the lesser of:

a) 20% of your monthly discretionary income per payment, or
b) payments spread out over 12 years.

Your maximum repayment period is 25 years. If your income-contingent payments don't pay off your loans in 25 years, the remainder of your loan is forgiven at the end of your repayment term.

Cons:

- If your income increases, your payment could be well above what you would normally pay per month. While you will never pay more than you owe, this could adversely affect saving for retirement, your child's education or for paying off high-interest credit cards. However, you are allowed to change repayment schedules once per year.
- Your payment may not be large enough to cover the interest accumulated on your loan. Interest is capitalized once per year.
- Planning can be more difficult for faster repayment because your payment can vary quite a bit from year to year based on your annual income.

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- Any amount that is discharged after 25 years will be taxed as income.

Repayment Matchmaking
Choosing the right repayment option is as important as choosing the right balance of federal and private loans. Study all options and then get repayment advice from your college's financial aid counselor, friends currently in repayment or family members with financial expertise.

Repayment During Financial Hardship

When you think about the length of time it will take you to pay off your loans, panic might set in when you realize you might not always be able to afford your payments. Thankfully, the federal government built payment reprieves into your student loan contract to address financial hardship for borrowers.
In this section of the student loan tutorial you'll learn how you can avoid penalties for nonpayment and late payment during difficult situations. Options discussed will include the safety net the government has provided you and instructions on how to create your own safety net.

Federal Loan Forbearance and Deferment: Your Built-In Safety Net
The team within the federal government who designed the student loan system would like you to never default on your student loans due to a temporary financial setback. Thus, two options are offered within your federal student loan contracts for a temporary reprieve from making payments on your educational loans: deferment and forbearance. Both options were designed to give you a few months or even years to rehabilitate your finances in case of financial setback due to unemployment, pay cuts, returning to school or medical emergencies. While you get your fiscal life back in order, your credit remains unscathed by the missed payments - as long you request and get approved for either a deferment or forbearance on your student loans.

But when you do you apply for a forbearance versus a deferment, and is one better than the other? If you qualify, deferment is always better because your interest is paid on your subsidized federal loans by the federal government until the deferment is over. (For more on this, read *Loan Deferment Saves Students From Disaster*.)

Qualifying for Deferment
Payment deferment is reserved for special circumstances such as economic hardship, inability to find a full-time job for three years, going back to school, or active military duty. The wartime active duty deferment is only allowed for loans disbursed after July 1, 2001. The deferment for those unable to find a full-time job applies for those who join the Peace Corps as well. All of these deferments are good for up to three years.

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Parents PLUS loans are also eligible for deferment. (Learn more about the financial benefits of joining the *Peace Corps in Are The Volunteer Corps Right For You?*)

However, deferment has one catch that forbearance doesn't. Since your situation is generally reviewed before approval, you have to make payments until you are notified that deferment has been granted. If not, you will be charged late fees. And if you miss enough payments, you could default on your loan.

To apply, download the correct form from your lender's website or call and request that the appropriate form be sent to you. Since there are dozens of types of deferments, call your lender and ask which form you should fill out. If you're not careful, you could choose the wrong form and get denied, when you should have been approved.

Qualifying For A Forbearance
You can get up to three years of forbearance by calling your lender and explaining your financial situation. You don't *necessarily* have to show any proof of financial hardship – although this is determined at the lender's discretion.

Savings: Your Self-Created Safety Net
Financial experts recommend having an emergency savings fund to cover six to eight months of expenses in case of financial hardship. If you don't have that much set aside, now's the time to start setting aside a small amount of money each month, whether it's $5 or $100. Saving $5 each month quickly grows to $60 in one year – enough to pay a phone bill when you're low on funds. Saving $25 per month quickly grows to $300 – enough for your car payment. Having this money available will help you get back on track from a job loss or other financial difficulty faster, so you can start making payments again on your student loans or avoid missed payments altogether. (For more tips on building up your savings, read *Build Yourself An Emergency Fund* and *4 Ways To Weather An Economic Storm*.)

Default: Working Without A Net
Go into default on any of your student loans is the easiest way to cut off most of your repayment options and hurt your credit rating. Defaulting on your student loan means you have failed to make payments, and the creditor has decided to refer your account to a collection agency. All of your options for deferment or forbearance are taken away, and you also will not be able to get new financial aid. Similar to defaulting on a credit card, a default on any of your student loans will seriously damage your credit rating.

The good news is that although your missed payments will stay on your credit report for seven years, you do have options for loan rehabilitation.

Keep One Financial Hardship From Becoming a Long-Lasting Problem
Financial hardships happen, but one hardship situation won't turn into a disaster if you

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know what your options are to get through difficult times ahead of time and use your safety nets - both contractual and your savings account - to facilitate a soft landing and a speedy recovery.

Paying Off Your Debt Faster

Paying off your student loans won't happen overnight, but you can shorten your repayment period by a few months or even a year or two. How? By using one or a mixture of the methods outlined here.

Biweekly Payments
Apply a trick that's used for mortgages to your student loan debt.It's well known that if you pay your mortgage off in biweekly instead of monthly payments, you could shave several years off of your mortgage. This is because of two factors. First, you are paying less in interest because there is less time between payments for interest to accumulate. Second, you will end up making an extra month's worth of payments every year. This is because paying every other week equals 26 annual payments. It's a relatively painless way to reduce the cost of borrowing and pay off your loans faster. If you get paid biweekly, the payment feels the same on your wallet because you are taking half of a payment from each paycheck.

The only con to making biweekly payments is if you are getting a discount for having automatic payments directly debited from your bank account. In this case, the lender will more than likely take out your payments once a month. If this is the case, never turn down an interest rate deduction. Instead, on the two months per year where you get three biweekly checks, you can send in an extra half payment. You can have your interest rate deduction and reduce your repayment period.

How much can biweekly payments save you, even without the direct debit discount?

Example: Your student loans upon graduation totals $40,000. Your average interest rate is 4.5% and your repayment period is 20 years. Your monthly payment is $253.06.

Payment Frequency	Number of Payments	Payment Amount	Total Payments in First Year	Total Interest Paid in First Year	Time to Pay Off Your Loans
Monthly					

This tutorial can be found at: http://www.investopedia.com/university/student-loans/default.asp

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Payments	12	253.06	$3,072.72	$1,774.17	20 years
Biweekly Payments	26	126.53	$3,372.28	$1,522.46	17 years and 7 months

Adding Small Amounts Each Month
You may not be able to afford an extra payment a year, but you can afford to send in an extra $5 a month or $25 every other month. Every dollar you pay toward your student loans can save you up to 200% of the extra payment you sent.

Every Little Bit Counts
Let's say you send in $5 in month six of your 10-year loan repayment schedule and your interest rate is 6%. $5 plus the 6% interest that would be charged to borrow the $5 for 10 years totals $8.70. It doesn't matter how much you borrowed because we are only calculating the interest saved on $5 for 10 years. This is because whether you borrowed $2,000 or $10,000, your last payment including principle will be over $5 and therefore you pay interest on your $5 for the entire loan. Just imagine what you could do if you paid an extra $5 per month for a year or more.

Below is a repayment tables for a $10,000 student loan repaid over a 10-year period with $5 a month added to all of your payments in year two.

Payment Month	Payment	Remaining Balance
1-12 (year 1)	$111.02	$9,247.28
13-24 (year 2)	$116.02	$8,386.46
25-119(year 3 to year 9 and 11 months)	$111.02	$59.40
120 (final payment at 10 years)	$11.48	0

As you can see, paying a total of $60 ($5 x 12 months) extra in year two saved you $100 on your final payment.

This tutorial can be found at: http://www.investopedia.com/university/student-loans/default.asp

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When to Hit the Brakes on Your Accelerated Repayment Schedule

Be careful of using all your spare dollars for student loan payments. If you have a high-interest rate credit card, you're better off using your extra cash to reduce your credit card balance. For instance, if you have $2,000 in credit card debt with a 12% interest rate, you shouldn't pay off your 6% student loan first.

Student Loan Tax Deduction

The best part of your student loan interest tax deduction is you can use the money you're getting back as a tax refund to pay off your student loan faster. How much can you save, and how do you qualify for and apply for your tax deduction?

Like any other tax deduction, the amount of your student loan interest reduces the income on which you are paying taxes. So if your marginal tax rate for your income level is 25%, multiply the interest you paid on your student loans by 25% at the end of the year. For instance, if the amount of interest shown on the 1098 form you received from your lender at the end of the year is $2,400, - which could easily be the case with a $300 payment - 25% of $2,400 means you'll owe $800 less or receive a refund for $800 of the tax you already paid. Taking your $800 refund and making an extra payment on your student loans could cut more than a year off your repayment schedule. (For other profitable ways to use your tax return, see *Don't Waste Your Tax Refund*.)

Speedy but Painless Repayment

Paying off your loans months or years faster doesn't have to impact your financial life. You can add small amounts to your monthly payments, make biweekly payments instead of monthly payments or send in the money from your tax refund from your student loan tax deduction towards getting rid of your loans once and for all.

Federal Loan Consolidation

Federal loan consolidation is a helpful tool for converting an unmanageable payment into a manageable payment by combining multiple semester loans into one loan and extending your repayment schedule.

In this section, you will learn how consolidation works, how to apply for federal loan consolidation, which loans can be consolidated, where to consolidate, and how to best manage your loan once it is consolidated. (For background reading, see *Debt Consolidation Made Easy*.)

How Federal Student Loan Consolidation Works

You took out one loan per semester, and each one may have been with a different lender. If you finished in four years, that's eight different loans with up to eight different banks. You can contact your lenders and/or the federal government's direct loans

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program to combine these loans into one loan. The loans will be extended for a period of up to 30 years, depending on your loan balance. Your payments are reduced to reflect this lower payment.

But what if you have the ability to pay off your loans earlier and can keep track of multiple lenders on your own? Consolidation does not stop you from paying off your loan early or sending in extra money to reduce your loan balance. You can pay off your loan early without any penalty. And while you may be able to keep track of up to eight lenders, it's convenient to have your loans in one place.

The other benefit to consolidation - besides a lower payment - is lowering the likelihood of forgetting about a loan and accidentally going into default. This is because you won't have to manage so many loan accounts with a variety of lenders - which may lead to forgetting a lender or two. This is why the first step in loan consolidation should be checking the national student loan database. Here, you can use the pin you acquired when you applied for your loans to access all your federal student loan records. In the records are your lender names and loan amounts. If you don't remember your pin, you can go to the pin website and request a duplicate pin.

Averaging Interest Rates

Consolidation loans have fixed rates, but your consolidation loan interest rate is an average of the rates of all the loans you acquired to complete your college education. Since federal student loan rates are set on an annual basis, you could have a different interest rate for loans taken out in different school years. Your interest rates are averaged based on the cumulative interest rates of your loans and weighted by the amount of your loans. Luckily, each lender you currently have has already averaged your interest rate for the loans you have with that institution. The only averaging that will likely happen is combining the interest rates pre-averaged by each lender.

For instance, if you have loans from two different lenders and one lender's total loan amount is $10,000 at an interest rate of 4% and the other's total loan amount is $20,000 at an interest rate of 5%, you have a total of $30,000 in student loans. If you divide $10,000 by $30,000, you'll see that one-third of your loans are at 4%. If you divide $20,000 by $30,000, you'll see how two-thirds of your loans are at 5%. One-third of 4% plus two-thirds of 5% equals an average interest rate of 4.67%.

Why You May Have Variable Rate Student Loans

Before July 1, 2006, federal student loans did have variable interest rates. If you took out a loan before July 1, 2006, your rate changes when the new interest rate for federal loans is revealed annually in July. Consolidating these loans with your other loans will permanently stabilize your interest rate to the average of the interest rates of all your federal loans.

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Subsidized Versus Unsubsidized Loan Consolidation
When your loans are consolidated, you will generally have subsidized and unsubsidized loans. These loans will remain in their subsidized and unsubsidized forms in case you return to college at a later date or qualify for a deferment in which you wouldn't get charged interest on your subsidized loans.

More Money Toward Investments, Your First Home and High-Interest Credit Cards
When you extend payments you are freeing up your finances to pay down high-interest credit cards, put money toward your retirement, or buy a home.

Sample Repayment Table for Consolidated and Standard Repayment Loans
Assume in this table an interest rate of 6.8%.

Total Loans	Standard 10-Year Repayment	Consolidation Repayment Period	Consolidated Payment
$10,000	$115.08	15 Years	$88.77
$20,000	$230.16	20 Years	$152.67
$30,000	$345.24	20 Years	$229.00
$40,000	$460.32	25 Years	$277.63
$50,000	$575.40	25 Years	$287.70

Benefits Previously Given
If you or any of your friends consolidated before November of 2007, you may have received or heard about borrower benefits such as 2% interest deductions after 36 months of on-time payments. If you were lucky enough to consolidate while these borrower benefits existed, it's important that you do everything you can to keep your benefits. Sign up for online access with your lender so you can verify that all your payments are received by viewing your account online. If you experience a financial difficulty, make sure you ask about deferments or forbearances. Your borrower benefits will still apply and you can continue to build your number of on-time payments toward the 36 required for the interest rate reduction after your deferment or forbearance expires. But be careful about when you stop making payments in a financial difficulty. If you apply for a deferment don't stop making payments until your deferment is approved, or you will violate the terms for your receiving your benefit.

Consolidation Caution
Even if you have consolidated your loans, you could still have a loan that isn't involved in the consolidation and will go into default if you don't make payments. The reasons one or more loans may not be part of your consolidation loan is you returned to school after you consolidated your loans or you just forgot to include one you didn't know you

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had. Check the national student loan database to find all your loans prior to consolidation; you can reconsolidate if any are missing from your previous consolidation. (For more on consolidation, see *Digging Out Of Personal Debt*.)

Private Loan Consolidation

Even if you don't choose to consolidate your private loans because of wanting smaller payments, there's a profound reason to consolidate your private loans: the illustrious, coveted fixed-interest rate. Generally private loans, have variable interest rates. However, when you consolidate your loans, you not only create smaller, more manageable payments, but you can secure a fixed-interest rate loan.

How Private Loan Consolidation Works

When you wish to consolidate your private loans, you call up your original lender and ask about combining all your private loans into one larger loan. If you have more than one original lender, you can ask each bank about the possibility of combining your loans from that institution with loans from others. Since private loans are offered in the consumer market you can also compare interest rate terms to those at any bank that offers private consolidation loans. When you consolidate, you can get better interest terms than when you started if your credit wasn't as good at that time, or you can drop your cosigner from your loan. For instance, you might qualify for rate terms of PRIME plus 1% now, whereas you were stuck with PRIME plus 10% on your original loan because of your credit rating when you original borrowed the money for your education.

Special Contract Terms

In the federal student loan program, you are given guaranteed ways to postpone payment when you experience financial hardship. But with private loans there isn't a guarantee your lender will work with you when you lose your job or experience other financial difficulties. Ask your lender if it offers any provisions for temporary reprieve from making payments due to an economic hardship. If your perspective lender's representative does mention such a provision, make sure proof of the provision is offered and sent to you in written form.

The Credit Card Alternative to Private Loan Consolidation

Transferring your loan balances to credit cards doesn't sound like the best alternative, but if you receive a 0% balance transfer offer for 12 months or a 4% balance transfer offer for the life of the loan offer, it's definitely a method worth considering for transferring some or all of your private student loan debt. (For more information on this option, see *Shuffle Away Your Debt With Balance Transfers*.)

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Before you consider transferring your student loan debt to a credit card, you'll want to evaluate the following:

- **Is there an origination fee for the balance transfer?** Depending on how long it will take you to pay off the loan, a balance transfer rate of 3-5% may void the benefits of transferring the loan balance in the first place.

- **When will your promotional interest rate rise?** If you transfer a balance to your credit card and don't pay it off during the period that your credit card offers you the promotional interest rate, your card will revert to its old interest rate. For instance, if you transfer $10,000 to a credit card but you know you'll only be able to pay off $2,000 in one year and your promotional rate expires at the end of the year, you'll still have $8,000 on your card when your promotional rate ends. This will accrue interest at the non-promotional rate.

- **Will your promotional rate affect the rest of your balance?** If you already have a balance on your card, you need to know if the lower promotional rate is paid off first. Under such a condition, you'll pay off your student loans at the discounted rate while the rest of your credit card balance is charged your normal rate, which could be anywhere from just below 8% to over 22%. No matter how much you pay per month, - until your transferred balance is paid off, not a penny will go toward the amount that is borrowed at the higher interest rate.

- **Will your balance transfer affect your credit rating?** If transferring your private loan balance onto your credit card is going to cause you to max out your credit card, you need to reduce your transfer. Your credit card balance should not exceed 50% of your credit limit. (For more on how this works, read *How Credit Cards Affect Your Credit Rating*.)

Corral Your Private Loan Debt
There isn't a negative side to consolidating your private loan debt. This is because no matter how far your loan repayment is extended, you can always pay your loan off early - and with a fixed interest rate.

Conclusion

Let's recap what we've learned about student loans:

- How to pay for college is as complicated and as important a decision as which college to choose, what to major in and whether to live on or off campus.

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- Only borrow what you can afford to pay back after graduation based on income estimates in your career field.
- Filling out a FAFSA form is crucial to securing student aid.
- Exhaust federal funding options before applying for private loans.
- Most private loans have variable interest rates, and initial rates vary based on yours or your cosigner's credit rating.
- The standard federal loan repayment program lasts 10 years.
- Public service employees and others with low incomes have additional options for repayment based on annual income.
- Federal loan programs offer options for postponing payment during a financial hardship situation.
- Federal consolidation can extend your loans up to 30 years.
- Consolidating private loans is the best way to secure a fixed interest rate on your private student loans.
- Managing your student debt borrowing based on what you can afford to repay is the best way to get an education and avoid financial trouble down the road.

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