Repaying Student Loans Podcast

[Music plays]

Nikki:

You're listening to 'Repaying student loans'. Hi. I'm Nicky, your host for today's podcast. If you're intimidated by the prospect of paying back a student loan, you're not alone. After all, student loan debt can be fairly large, and the monthly payments can take up a big chunk of your income. However, being educated about student loans and your options can make it easier to repay them.

This podcast will cover the different types of student loans, repayment plans, consolidation, cancellation and forgiveness, deferment and forbearance and default. It's important to know the types of student loans you have since it can affect your repayment options. Student loans can either be public or private. Public loans are those issued through a government or federal program. Private loans are made by lenders with no government involvement.

When it comes to public loans, there are three major programs, the William D. Ford Federal Direct Loan program, the Federal Family Education Loan program, or FFEL for short, which by the way was discontinued in June of 2010 and the Federal Perkins Loan program. The direct loan and FFEL programs both offer Stafford and PLUS loans.

The Stafford loan is the most common type of student loan and can be either subsidized or unsubsidized. If your loan is subsidized, the government pays your interest while you're in school or during a period of deferment. If your loan is unsubsidized, you're responsible for the interest as soon as you receive the money. You can choose to pay the interest as it accrues or have it added to your balance.

PLUS loans are made to parents and graduate students and are always unsubsidized. Perkins loans are always subsidized while private loans are generally not subsidized. If you don't remember what types of loans you have, look for your loan documents. If you cannot find them, you can call your lenders and ask.

You can access information about federal student loans from the National Student Loan Data System. You can visit their website at www.nslds.ed.gov.

A common question students often ask is "When do you have to start paying your student loans?" It all depends on the type of loan you have. For Stafford loans, your first payment is normally due six months after graduating or dropping below half-time enrollment. For Perkins loans, you have nine months.

For Parent PLUS loans, you can start paying either within 60 days after the funds are dispersed or you can wait until six months after the student has graduated or dropped beneath half-time enrollment. For Grad PLUS loans, the grace period typically ends within 45 days after leaving school. If you have private loans and aren't sure when repayment starts, talk to your lender.

When it comes time to pay, direct loans are generally paid to the direct loan servicing center and Perkins loans are typically paid to the school. FFEL and private loans may be paid to the lender that gave you the loan, the lender that bought the loan if it was sold or a servicer. Whenever a loan is sold or payment collection duties are transferred, you should be notified.

If you're not sure who to pay, you can review your credit report or call the original lender. If you fall behind with your payments, it's possible that your loan will be sent to a collection agency, or for federal student loans, your state's guarantee agency or the Department of Education.

Repayment plans. For direct and FFEL loans, there are several options available for repayment. The standard repayment plan is the default plan that borrowers are put on when they start making payments. You pay a fixed monthly amount for 10 years or less if the amount you borrowed was small. The monthly payment is the highest under this plan, but because of this you pay the least amount of interest over the life of the loan.

The graduated repayment plan is one where the payment can start out as low as half of what the standard plan offers and is typically increased every two years. This plan may be appropriate for you if your income is low now but you expect it to increase significantly in the future. The extended repayment plan allows you to stretch the length of your repayment period up to 25 years, which lowers your payment. To qualify you must owe at least $30,000.

There is also the income-contingent repayment plan. This option is only available for direct loans, excluding Parent PLUS loans. Income and family size are taken into consideration when determining your monthly payment. Your financial circumstances are reassessed every year. As your income rises and falls, so does your payment.

The repayment period can last longer than 10 years, and any loan balance remaining after 25 years of payment is cancelled. The income-sensitive repayment plan is only available for FFEL loans. Like the income-contingent repayment plan, your monthly payment is based on your income. However, the payment must cover at least the interest, and the repayment period is limited to 10 years, so later payments will be higher.

The income-based repayment plan is another plan where your payment is based on your income. However, this plan isn't available for Parent PLUS loans. In order to qualify, you must have a certain level of student loan debt relative to your income and family size. The monthly payment amount can be less than the interest charges, and any loan balance remaining after 25 years is cancelled.

For FFEL loans, you have the right to switch your repayment plan once a year. For direct loans, you can switch plans as often as you want. Remember, using an alternative to the standard payment plan will increase the amount of interest you have to pay over the life of the loan. For Perkins Loans, the standard repayment period is 10 years or less.

Alternative repayment plans are not available, but schools can extend the repayment period for low-income borrowers or those facing prolonged hardship. For private loans, lenders are not required to offer alternative repayment plans and deferment options. However, if you're struggling, you can talk to your lender about the possibility of restructuring your loan.

Next let's discuss consolidation, cancellation and forgiveness of student loans. Consolidation is the combining of existing loans into one new loan. You can consolidate all, some or just one of your student loans. If you're using multiple lenders, being able to make one single payment a month can be a huge relief. You may also be able to get a lower payment by consolidating your loans.

It's important to note that you don't have to be current with your payments to consolidate your loans. In fact, many delinquent borrowers use consolidation to get back on track. If you have federal and private loans, you cannot combine your private loans with your federal loans into a federal consolidation loan.

You can, however, consolidate your federal loans and private loans with a private consolidation loan, but this is not recommended. You will lose the rights granted to federal loans such as deferment and alternative repayment plans.

Cancellation or forgiveness of a student loan may occur under certain circumstances. These include the death or permanent disability of the borrower or attendance at a school where you were either falsely certified or the school closed before you could complete the program.

Some federal loans are eligible for full or partial forgiveness if you're a member in a uniformed service, teach or provide services to needy populations, work in a healthcare profession or law enforcement or participate in a government volunteer program such as the Peace Corps or Vista. Check with your school, lender or employer for details about cancellation.

When it comes to bankruptcy, generally you can't discharge your student loans like you can other debt. Student loans are extremely difficult to discharge in chapter seven bankruptcy. You must prove that repayment would cause you undue hardship. You may include student loans in a chapter 13 repayment plan. They must be repaid in full, but collections actions such as wage garnishment stop the moment you file.

Deferment and forbearance. If you're unable to pay your student loans or anticipate difficulties in the future, don't hide your head in the sand. For federal student loans, you may be able to get relief with a deferment or forbearance.

A deferment is a temporary suspension of payments. If the loan is subsidized, the interest will be suspended. If not, interest will continue to accrue. Deferments of federal student loans are only permitted under certain circumstances including enrollment as at least a half-time student, temporary total disability, enrollment in a graduate fellowship program, unemployment or other economic hardship, active duty in the Armed Forces or participation in a rehabilitation program for the disabled.

Forbearances are granted for such reasons as a high monthly payment relative to your income, a medical hardship or some other unforeseen personal problems. If you have subsidized loans, a deferment is preferable, but a forbearance is generally easier to obtain. While some private lenders may offer deferments or forbearance, they're not required by law to do so.

If you don't arrange a deferment or forbearance and you're more than 270 days past due, the loan is considered in default. The consequences are severe and can include aggressive collection tactics, tax refund interception, lawsuits and non-judicial garnishment of up to 15 percent of your net wages.

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It gets worse. You'll be ineligible for deferment, alternative repayment plans, grants and new student loans. Collection fees, which can be significant, will be added to your balance. Additionally, the default will appear on your credit report.

For federal student loans, you have a one-time right to get out of default with a reasonable and affordable repayment plan. You and the current loan holder should work together to determine the amount. If they want you to pay an amount you feel you cannot afford, be persistent in requesting an amount that you are comfortable with.

Once you make nine on-time payments, your loan is considered rehabilitated and taken out of default. The default notation will be removed from your credit report, and the other consequences of default will also no longer apply. Also, as we stated earlier, loan consolidation is another way to get out of default. Though this will not remove the default notation from your credit report, it will show that the loans were paid off but were defaulted at one time.

For many people, graduating from college is the start of their adult life and a 10-year or more relationship with student loans. By understanding and using the opportunities available to you, you can make the relationship as painless as possible. That's all for this podcast. For Balance, this is Nicky saying thank you for listening.

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