

BANKING FEATURE



How Burdensome is Repaying Student Loans?

[By Shaileja Mammen]

Repayment of education loans is relatively easier today with options like grace periods, consolidation, deferment, forbearance, cancellation, and loan repayment assistance. In addition, education loans are more affordable because of federal policies governing education loans related to interest rates and tax benefits.

Several repayment options are available beyond the standard 10-year repayment plan. Extended plans offer longer repayment periods. Graduated plans with low initial monthly payments that increase gradually are also very convenient. Income-contingent repayment plans, for which borrowers of Direct Loans are eligible, and income-sensitive repayment plans, for which borrowers of FFELP Loans are eligible, are other available repayment options. These plans are based on the income of the borrower.

Repayment of education loans starts at the end of the grace period after graduation. A grace period of six to nine months is offered depending on the type of loan. If the education loan is a Perkins Loan or a subsidized Stafford Loan, no interest is charged during the grace period. An interest-free grace period is not an option for unsubsidized loans, and no grace period is offered on PLUS Loans.

The best time to consolidate education loans is during your grace period. Consolidating your loans means you will make a single payment to a single lender each month. You can also lower your payments, take

advantage of fixed interest rates, enhance your credit score, and avoid being charged prepayment penalties.

If you plan to continue your education, your repayment can be deferred. But remember that this does not happen automatically; you need to apply for deferment. Deferment is also granted if the borrower is dealing with economic difficulties; teaching certain designated courses; completing service with the U.S. Army, law enforcement, or the Peace Corps; or a nursing and/or medical technician.

You can save money on interest if you apply for deferment, provided you are eligible for it. During your deferment period, you don't need to make any payments. Interest does not accumulate during your deferment period if you have deferred repayment on a subsidized Stafford Loan.

If your monthly payments are high and unaffordable, forbearance may be a suitable option to consider. Forbearance for a period of 12 months at a time (for up to a maximum of three years) can temporarily ease the burden of repayment. A written agreement from the lender or the loan-servicing agency

will grant you forbearance. Forbearance reduces payments for the interim period or reschedules them.

An application for forbearance must be submitted to the lender. This application should be accompanied by documentary proof showing the need for forbearance. Only a written letter from the lender indicates approval of forbearance. During the forbearance period, interest on loans continues to accrue, and it must be paid.

Student loan repayment assistance programs also exist. If you work for certain non-governmental organizations or national, state, or local government agencies, you can get assistance with repaying your student loans. These employers provide loan repayment assistance if you commit to work for them for minimum periods of time.

Last but not least, your loans can be cancelled if you are teaching certain designated courses; working as a nursing and/or medical technician; or completing service with the U.S. Army, law enforcement, or the Peace Corps.

The education loan industry has undergone



BANKING FEATURE

some changes over the past decade. There has been a significant decrease in the interest rate charged on Stafford Loans, and interest rates have decreased gradually from 8.34% to 6.8%.

Additionally, a tax benefit related to student loan repayment was instituted in 1998-1999. As much as \$2,500 in interest payments can

be deducted every year for the lifetime of a student loan. This benefit provides 6% of the nation's total financial aid for postsecondary education.

On the Net

College Board
www.collegeboard.com

Federal Student Aid
www.federalstudentaid.ed.gov

How to Pay Off Student Loans
www.kiplinger.com/columns/drt/archive/2007/dt070509.html

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