

Fact Sheet: How to Repay Education Loans

Loan Repayment

Whether you already have a student loan or are just thinking about getting one, it is important to understand the financial consequences of borrowing for college.

An education loan you get for college is just that – a loan which must be paid back with interest.

Repayment on federal education loans normally begins when you graduate or drop below half-time enrollment. Typically, you have a six-month grace period before repayment starts, which gives you time to find a job and start earning money. During the grace period, interest continues to accrue on unsubsidized loans, so if you have the income, it's best to go ahead and start repaying your loans. Using a typical student loan debt of \$18,000, for example, after four years of college, up to \$800 in loan interest may be added to the total during the six month grace period.

Handling your student loan payments responsibly is important to establish good credit. Since you may also be starting a career, getting your own apartment, paying credit card bills, and even trying to save money for a rainy day, you need to plan carefully to handle all your financial responsibilities.

How are loans repaid?

You can repay your loans by sending monthly checks to your lender, or you can set up an automatic bank draft, so your payment is deducted from your bank account each month. Bank drafts are a good way to go since they reduce the chances of a missed payment, which can mean additional fees and even higher interest rates. Also, some lenders will even reduce the interest rate on your loan when you pay by automatic bank draft.

Depending on your lender, there may be different options for structuring the amount of your monthly payments. These repayment options include: Standard, Graduated, Income-Sensitive, Income-Based, and Extended.

- **Standard Repayment Schedule.** You pay a fixed, level payment amount throughout your repayment period, which is usually up to 10 years. If you are able to handle the monthly payments, standard repayment enables you to pay off your loan as soon as possible. The minimum monthly payment required is \$50, but may be more depending on the amount borrowed.



Consider a graduated or income-sensitive schedule carefully before making your request to change from a standard schedule. These repayment plans may begin with lower payments, then increase or be adjusted over time and are, therefore, more expensive than standard repayment. You repay a higher amount because the interest accrues over a longer period of time.

- **Graduated Repayment Schedule.** This schedule begins with your paying a lower monthly payment amount than the Standard Schedule and then increases the payment amount on a periodic basis over the repayment period. This structure 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.
- **Income-Based Repayment Schedule.** May cap your monthly education loan payments if you are having a hard time meeting basic living expenses. Lender 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 qualify for an extended repayment period of up to 25 years. To be eligible for this schedule, all of your outstanding loans must have been disbursed on or after October 7, 1998.

Your student loan is often the first loan you will ever get. Repaying it responsibly will help you establish good credit, making future loans possible for items such as a car, house, or even graduate school.

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