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Federal Student Loans: Understanding the Repayment Process

Numerous repayment plan options are available to Federal student loan borrowers to help meet financial obligations. To figure out which plan suits you best, it may be helpful to learn more about how the repayment process works.

The Grace Period

After you graduate, leave school, or drop below half-time enrollment, you will generally have a “grace period” – a period of time before you have to begin repayment on certain loans.

For **Federal Perkins Loans**, the grace period is **9 months**. However, if you are attending half-time, be sure to check with your institution’s financial aid office to determine your grace period. During the grace period of a Perkins Loan, you do not have to pay loan principal and you will not be charged interest. When your 9 month grace period ends, you must begin making monthly payments to the school that loaned you the money and you will have 10 years to repay the loan.

For **Federal Stafford Loans** under the Federal Family Education Loan (FFEL) program and the Federal Direct Loan Program (Direct), the grace period is **6 months**. When you graduate, leave school, or drop below half-time enrollment status, your loan holder or loan servicer will send you information about repayment – including payment due dates. If your grace period is almost over and you haven’t received this information, contact your lender, or in the case of Direct Loans the U.S. Department of Education, **as soon as possible** to request this information.

For Stafford loans, if you re-enroll at least half-time before the grace period ends, you may postpone loan repayment again while you’re enrolled. You are entitled to a full grace period for your Stafford loans when you terminate enrollment or drop below half-time enrollment status.

Keep in mind that Stafford loans come in two forms:

- **Subsidized** Staffords are need-based loans in which the Federal Government pays loan interest while the student is enrolled in school and during the grace period.
- **Unsubsidized** Staffords are non-need-based loans in which the Government **does not pay** interest while the student is in-school and during the grace period. For unsubsidized loans, you can choose either to pay the interest during the in-school and grace periods **OR** to have it capitalized (added to your principal loan balance). Contact your loan holder/loan servicer to help determine the best repayment strategy for you.

For **FFELP PLUS, FFELP GRAD PLUS** and **Direct PLUS Loans**, there is **no grace period**. The first payment on these loans is generally due within **60 days** after the final loan disbursement for the period of enrollment for which funds were borrowed.

Repayment Options

Most lenders will allow borrowers to adjust repayment terms to suit individual needs and circumstances. The majority of students repay their loans using the **standard repayment** plan. Standard repayment involves making equal monthly payments over a ten-year period.

Another common repayment option is a **consolidation** loan. These loans combine multiple Federal education loans into one new loan. Consolidation simplifies loan repayment and reduces your monthly payment amount. Depending on how much you borrow, consolidation can extend your repayment period to as much as thirty years. Keep in mind that because the repayment period may be longer, you will pay more over the life of a consolidation loan in interest payments than had you not consolidated your loans. Also, know that you may forfeit certain borrower benefits when you consolidate your federal student loans.

Lenders offer the following flexible repayment options to suit borrower's individual circumstances:

- **Graduated Repayment:** A repayment schedule where the monthly payments are smaller at the start of the repayment period and become larger later on.
- **Income-Sensitive Repayment:** A payment option available for some FFELP loans under which the borrower's monthly payment amount is adjusted annually, based solely on the borrower's expected total monthly gross income received from employment and other sources during the course of the repayment period.

Beginning July 1, 2009, a new **income-based repayment** option will become available to borrowers. This plan is designed to make repaying education loans more manageable for students pursuing jobs with lower salaries, such as careers in public service.

Many lenders and loan servicers have repayment calculators available on their websites. These calculators are a great tool and will help you estimate the total amount you will be obligated to pay under various repayment plans.

Before you select a repayment plan, factor in the total cost of the loan. Although you will be paying less per month with some plans, you could end up paying significantly more over the life of a loan because you're slowing down your repayment of principal, which increases the amount of interest accrued and the overall amount owed. Check with your loan holder for additional rules and to pick the repayment plan that best suits you.

Keep in mind...

You are responsible for beginning repayment on time.

People are there to help you should you need assistance or information. Contact your loan holder or loan servicer for additional information about the terms of your loan(s) and for help selecting the repayment plan that best meets your needs.

What if you don't remember the name of your loan holder or loan servicer?

For Federal Family Education Loans (FFEL) you can check your loan history with the National Student Loan Data System (NSLDS) at http://www.nsls.ed.gov/nsls_SA/.