Student Loan Fun Facts!

Student loans are like a pet. They can be very needy and demand attention. But if you give them love and treat them well, they can be your best friend. OK, maybe that's a stretch.

LOAN TYPES

When you take out federal loans, there are three possible loan types for you, and one for your parents. You may take out subsidized loans, unsubsidized loans and/or Perkins loans. Your parents may take out a Parent PLUS loan. There are some subtle differences with each.

Subsidized loans: You pay no interest on subsidized loans while you're in school. So, what you borrowed should be what you owe when you begin repayment. (There are some exceptions to this, as some subsidized loans the last few years were subject to interest during the ***grace period.*** More on grace periods later.)

Unsubsidized loans: Interest always accumulates on unsubsidized loans. So, through a magic process called ***capitalization,*** the loan balance you start paying on will be higher than what you initially borrowed.

Perkins loans: These loans are not as common. Generally, those students who are eligible for other types of financial aid can get a Perkins loan. The interest rate is 5% and you usually make payments to the school directly or a servicer. A common servicer for these loans is EDSI (Educational Data Systems, Inc.).

Parent PLUS loans: Legally speaking, these loans are the obligation of your parents. Most of the income-driven plans we'll talk about don't apply to these loans. If your parents have any difficulty making payments on these loans, please have them talk to a GreenPath counselor.

And now a quick word about ***private loans***…

These loans are another animal. As you read on about skipping payments, lowering payments based on your income and having your loans forgiven, keep in mind that most of these options do not apply to private loans. The lender may be willing to work with you, but each loan works differently. Given the fact that each private loan has its own set of rules, it's difficult for us to write much about them. But if you ever struggle to make payments on your private loan, please contact your lender and/or reach out to GreenPath for assistance.

YOUR SERVICER ACCOUNT

OK, now back to federal loans. When you take out federal loans, you will deal with an organization called ***Direct Loans***, which is the servicing arm for the U.S. Department of Education. After you graduate, your subsidized and unsubsidized loans will be transferred to one of four servicers: Great Lakes, FedLoan Services (PHEAA), Nelnet or Navient (Sallie Mae). A ***servicer*** processes your payments, provides customer service and helps you when you're struggling with payments.

GreenPath recommends that you ***create an online account with your servicer*** as soon as possible. Your initial registration is just to create a profile. Eventually, your loans will show up in your account. At that time, you'll be able to select your payment plan and set up automatic payments. Thankfully, your payments won't be due right away. The ***grace period*** starts after you graduate or withdraw from school. For subsidized and unsubsidized loans, the grace period is six months. For Perkins loans, you have nine months before payments begin.

REPAYMENT OPTIONS

You have a number of different payment options when it comes to your student loans. Here's a summary:

Standard: If you do nothing, this is the option you get. If you don't owe that much or you have enough income to make aggressive payments, this option makes sense. The length of a Standard payment varies — it averages 10 years, but can range from 5 years to 20 years, depending on the loan balance.

Extended: If you owe more than $30,000, you can stretch out the payments for 25 years. But be careful — a lower payment over more years can result in a LOT more interest paid.

Graduated: Payments start low and increase every two years. Graduated payments can be set up for a standard or extended time frame.

Pay As You Earn (PAYE): Your payments are based on your gross income and household size, and are recalculated each year. After 20 years, any remaining balance can be forgiven. If you work for a nonprofit or government agency, you may be able to forgive any remaining balance after ten years. More on this later.

Income Based Repayment (IBR): If you have older loans and don't qualify for PAYE***,*** you'll probably qualify for IBR. Very similar, but the payments are slightly higher. So, what payments can you expect? Check out the Department of Education's payment estimator. Go to www.ibrinfo.org and click on the orange box on the top right. The estimator downloads your actual loan data. After you provide income info, it can estimate your PAYE and IBR payments as well.

HAVING TROUBLE?

Did you know that 1 out of 7 students ***default*** on their loans within 3 years of graduating? An even higher percentage falls behind. Don't become a statistic. If you're ever having trouble making a payment, consider the following:

You can switch payment plans at any time. So, if you start with a higher standard payment and it's not working out, simply switch to one of the income-driven plans or an extended payment. You may be able to skip payments. A ***deferment*** can be set up if you have a qualifying event, such as returning to school, being unemployed or being on active duty for the military. Interest stops on any subsidized and Perkins loans.

A ***forbearance*** is easy to set up and also allows you to skip payments. The only catch is that interest will always accumulate, so this is not a good long-term option. You can even go back in time and set up a forbearance retroactively. Above all else, stay in touch with your servicer. They are there to help you. And if for some reason they are not helpful, GreenPath counselors are standing (or possibly sitting) by to help you!

GOING TO GRAD SCHOOL?

If you have undergrad loans, see if you can afford to make payments while enrolled in grad school. For subsidized loans, you can defer the loans, so it's not a big deal if you delay payments. But interest accumulates on unsubsidized loans, so you'll want to project how much the loans may grow. If loan projections aren't your thing, feel free to ask a GreenPath counselor to help you do this. What are your plans for funding grad school? If you need to take out student loans, you may be eligible to take out unsubsidized loans up to $20,500 per year. (There is a higher cap for certain training programs.) For 2014-2015, the rates are 6.21% fixed.

If this does not cover everything, ***Grad PLUS*** loans are offered at 7.21% APR. The cap on Grad PLUS loans is only limited by the cost of attendance, but a credit check is required and additional origination fees (4.292% of the loan balance) will be added. You may be considering private loans. They may offer lower interest rates at first, but rates are usually variable and could increase over time. It is usually much more difficult to adjust payment terms. Be sure to read all the fine print. Will you be working while attending grad school? If not, plan for how you will cover your living expenses. Will you use savings? Help from family? Private loans? Credit cards? Debt is never ideal, but at least by planning ahead, you'll make a more informed decision.

If you are thinking about grad school but have not made up your mind, do a cost/benefit analysis (or ask us to help you do this). Estimate what your salary might be if you start working after undergrad and compare it against what you might make if you get a graduate degree. Estimate how much you might have to borrow and plug this into the Department of Education's payment estimator to see how much would have to be repaid.

Good luck taming your student loan monster!