Student Loan Repayment – by James Schupp (Scoop)

This is, by far, one of the big question marks for most students when they are close to graduation. Student loan debt has also risen to great prominence within our society as it’s a staggering amount when looked at in total. Because it has come to National attention be aware there may be other programs available to you upon graduation.

It has always been my contention that, for the most part, student loan debt is a ‘good’ debt. It’s a skill and a talent that you can market for employment and it stays with you your entire life.

The world of student loans and repayment has gotten more complicated over the years. For example most loan providers now provide various loan payment options which may make it easier to begin the payback process. Ultimately it’s up to you to choose the plan that works best for you and hopefully with good guidance from someone who can inform you fully about your options.

All student loans have some things in common.

1) Requires payment each month to the provider of your loan.
2) Potentially will need to choose a payment plan.
3) Every loan has an interest rate attached to it which is how the lender gets paid. This rate can be fixed or variable and can make an impact on the overall amount you pay over time.
4) Every loan comes with a time frame called the ‘term of the loan’ – most commonly student loans are paid over a 10 year period but some can go out much further.

Paying on your Loans

In general, 6 months after you graduate you will be asked to begin the process of paying back your student loans. If you have loans outstanding and choose to go into a Graduate or Doctorate program you can defer those loan payments until you graduate from those programs.

I strongly recommend you contact your loan provider(s) at least 6 months BEFORE you are required to make payments. They will be able to tell you the amount that you will owe each month and you will also be able to assess the
various payment plans available. Most all of the plans have a 10 year payback period but some can extend much longer than that.

I find some students tend to choose those plans with the lowest monthly payment. In many cases this is totally justified but you should know the lowest cost plans are the most expensive plans in the long run. As I mentioned above every loan has an interest rate that you pay to the provider. The longer the term of the loan the longer you pay that interest. You’d be very surprised at the amount this is over time. Ask your provider to calculate how much interest you would pay over say, 20 years, versus 10 years. If you have the ability most definitely go for the shorter term loans – this ultimately saves you a lot of money.

PROCESS FOR PAY BACK OF YOUR STUDENT LOANS

1) Six months prior to graduation contact your loan provider.
2) Ask them what loan payback programs they have and begin to decide which one works best for you
3) Keep in mind the longer the term of the loan the more costs you incur in interest charges
4) Select a payment option with the provider once you completely understand how much you will owe every month
5) Once your plan is established arrange for ‘automatic’ payments to be paid from your bank account to the lenders account.
6) Schedule your payments to arrive a couple of days before the stated due date. Do your very best never to miss a payment.

LOAN DEFAULT

If for whatever reasons you are not able to make payments DO NOT just let it go. Absolutely call your loan provider, tell them your circumstances and see if they might be flexible in how the loan is paid back. Many will work with you as you are taking responsibility to call.

If you do not contact them and go into default then a lot of bad stuff happens. There could be collection agencies tracking you down, you may become ineligible to use a different repayment plan, late fees and attorney fees will build up, and lastly, and most importantly, your Credit Score will hurt you for life. In other words, sometime down the road you may not qualify for a car or
home loan. COMMUNICATE with your lender and it’s possible a lot of things listed above could be avoided.

-------------------

I hate to end on a negative note so please remember that your student loan was for a purpose. You received a great education and training towards a lifetime of employment. Studies continue to show that a college education is worth the money in terms of compensation and advancement.

Lastly, I’d like to share a good strategy to pay off your loans that will save you lots of money. This strategy suggests making extra payments when you can. By doing this is saves quite a lot of money over time.

**Loan Payment Examples – 2015**

Interest Rate: 6.8% (rate you pay the lender)

Amount Borrowed: $10,000

Term of Loan – 10 years (120 months)

1) $10,000 borrowed
   a. Monthly payment required $115.08
   b. Total payment over 10 years with interest charges - $13,800
   c. Total interest charges - $3,800

2) $20,000 borrowed
   a. Monthly payment required $230.27
   b. Total payment over 10 years with interest charges - $27,620
   c. Total interest charges - $7,620

3) $30,000 borrowed
   a. Monthly payment required $345.00
   b. Total payment over 10 years with interest
      $41,430
   c. Total interest charges $11,429
NOTE – If you were to pay an extra $100 a month on your monthly payments look at how much you save in interest costs

1) Borrowed $10,000 – pay extra $100 a month
   a. Monthly payment $215.08
   b. Total interest cost now $1640 versus $3,800
   c. SAVES over $2,000

2) Borrowed $20,000 – pay extra $100 a month
   a. Monthly payment $330.27
   b. Total interest cost now $4,568 versus $7,620
   c. SAVES over $3,000

3) Borrowed $30,000 – pay extra $100 a month
   a. Monthly payment $445 a month
   b. Total interest cost now $7,898 versus $11,429
   c. SAVES over $3,500

Source: bankrate.com (loan calculator)