FEDERAL STUDENT LOAN OPTIONS

Information from U.S. Department of Education/Federal Student Aid (https://studentaid.ed.gov/sa/)

Volunteers are strongly encouraged to talk to their loan providers about which option is the best fit for them. Some private loan lenders offer deferment and forbearance. These options, as well as the penalties associated with each option, would be outlined in the terms and benefits of the loan contract.

DEFERMENT

- A postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue on Direct Subsidized Loans, Subsidized Federal Stafford Loans, and Federal Perkins Loans. All other federal student loans that are deferred will continue to accrue interest (such as Unsubsidized Loans). Any unpaid interest that accrued during the deferment period may be added to the principal balance of the loan(s).
- A lender will need to submit a request to the loan provider or school that handles the loan account. It is usually recommended to file the paperwork for deferment when your grace period is nearing its end; however, the loan provider should be consulted and paperwork obtained well in advance of the deadline.
- Eligibility for deferment: economic hardship (one year at a time for up to 3 years)

FORBEARANCE

- A period during which your monthly loan payments are temporarily suspended or reduced. During forbearance, principal payments are postponed, but interest continues to accrue. The lender can pay the interest during forbearance or allow the interest to accumulate. If the interest is not paid during forbearance, it may be added to the principal balance, and the amount paid in the future will be higher.
- A lender will need to submit a request to the loan provider or school that handles the loan account. It is usually recommended to file the paperwork for deferment when your grace period is nearing its end; however, the loan provider should be consulted and paperwork obtained well in advance of the deadline.
- Eligibility for forbearance: discretionary (financial hardship)

INCOME-BASED REPAYMENT

- If the federal student loan debt is higher than the annual income or if it represents a significant portion of the annual income, a lender may want to consider income-based repayment.
- Repayment plan periods are for 25 years (or 20 years if a new borrower as of 7/1/2014).
- Loans eligible for this option: Direct Subsidized and Unsubsidized Loans, Direct Consolidation Loans (with no repaid PLUS loans), Subsidized and Unsubsidized Federal Stafford Loans (from Federal Family Education Loan program), Federal Perkins (if consolidated)
- Income-based repayment plans may lower your federal student loan payments. However, whenever a lender makes a lower payment or extends a repayment period, s/he will likely pay more in interest over time – sometimes significantly more. In addition, under current IRS rules, a lender may be required to pay income tax on any amount that is forgiven if there is a remaining balance at the end of the repayment period.
- Income-based repayment estimator: https://studentloans.gov/myDirectLoan/mobile/repayment/repaymentEstimator.action