10 Options for Paying Off Federal Student Loans

Take Charge America, a non-profit student loan counseling agency, explains student loan repayment options for consumers struggling with the debt

PHOENIX – (Sept. 9, 2013) – While higher education often leads to bigger salaries and better job security, a college degree comes at a very real cost.

According to the Consumer Financial Protection Agency, student loan debt has now surpassed $1 trillion nationwide, making it the largest form of consumer debt outside mortgages.

“The weak job market makes it difficult for new grads to earn a solid income and repay their debt,” said Mike Sullivan, chief education officer for Take Charge America, a national non-profit providing credit counseling and student loan counseling. “But, defaulting on a student loan can have serious, long-term consequences. It’s important to know there are numerous options for repaying federal student loans, particularly if life circumstances affect your ability to make payments.”

Sullivan suggests borrowers consider the following repayment options for federal student loans:

- **Income-Based Repayment** is for consumers who have high student loan debt relative to their incomes. It caps monthly payments at an affordable amount based on income and family size. Additionally, it provides loan forgiveness on any remaining balances after 25 years.

- **Pay As You Earn Repayment Plans** were established in 2012 for “new borrowers” (who didn’t owe money on federal loans as of Oct. 1, 2007 and received a disbursement of a Direct Loan on or after Oct. 1, 2011). They typically offer the lowest monthly payment amount of all student loan repayment options. Payments may increase or decrease each year based on income, family size, tax filing status and state of residence.

- **Graduated Repayment Plans** provide short-term relief through low, interest-only monthly payments that increase gradually every two years. Payments are made for up to 10 years.

- **Extended Repayment Plans** offer lower monthly payments over an extended period of time and have a predictable payment schedule. However, the interest paid on the loan will increase due to the length of the loan term, which is up to 25 years.

- **Consolidating** multiple loans into a single loan can simplify the repayment process and reduce monthly payments. Consolidation is often a first step to qualify for other repayment options. The repayment period lasts up to 30 years.

- **Deferment** can be requested to temporarily postpone payments. It’s granted for special
circumstances, such as returning to school, job loss, disability or military service. If a consumer has subsidized loans, the loan balance won’t increase during deferment because the government will make the interest payments.

- **Forbearance** can be requested to temporarily postpone or reduce monthly payments for an agreed-upon timeframe while the borrower works through a financial difficulty. If the loan is in forbearance, the balance will increase by the amount of unpaid accrued interest.

- **Loan Rehabilitation Programs** may be an option for borrowers who default. The borrower and the lender (or the Department of Education if the borrower has defaulted on a Direct Loan) agree on a reasonable repayment plan for nine consecutive payments over a 10-month period. The loan is considered “rehabilitated” and the default status is cleared once all payments have been made on time and a lender has purchased the loan. With a rehabilitated loan, consumers may be eligible for deferment, forbearance or other repayment options.

- **Perkins Loan Rehabilitation** is another rehabilitation option in which borrowers work directly with their schools (as many schools contract with companies to service Perkins Loans themselves). In this case, they must make nine consecutive payments to rehabilitate the loan.

- **Public Service Loan Forgiveness** is available to individuals who work full-time public service jobs, including positions with the government, military, public schools or 501(c)3 non-profits. Borrowers may qualify for forgiveness of their remaining Direct Loan balances after 120 qualifying payments, each made after Oct. 1, 2007.

Consumers who are struggling with student loans payments can get assistance through student loan counseling. Take Charge America introduced student loan counseling in 2013 to help people better navigate the federal student loan landscape and identify appropriate repayment options for their situations. To learn more, visit [www.takechargeamerica.org](http://www.takechargeamerica.org) or [www.studentloancoach.org](http://www.studentloancoach.org).

**About Take Charge America**

Founded in 1987, Take Charge America, Inc. is a non-profit agency that provides financial education services, including credit counseling, housing counseling, student loan counseling and debt management. It has helped more than 1.6 million consumers nationwide manage their personal finances and debts. To learn more, visit [www.takechargeamerica.org](http://www.takechargeamerica.org) or call (888) 822-9193.

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