What You Need to Know: Federal Student Loans (Part 4) - An ACCESS Special Report

This is the fourth and final part in our series on federal student loans. In part 1 we reviewed your options for financing college. Part 2 answered questions about the application process. And part 3 addressed the cost of college. Here we address key questions to consider after graduation and loan repayment options.

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How long will it take to repay my college loans? (after school)
That depends on the repayment program you select.

The standard time frame is 120 months ten years from the time you begin repaying the loan. But the government offers various repayment programs that include limiting your repayment amount to no more than 10% of your income for up to 25 years. There are also various programs which offer partial or complete loan forgiveness.

Repayment times may also increase if you enter a loan forbearance period due to unemployment (see below).

A variety of information on repayment programs and the time frames for repayment can be found on the Federal Student Aid website.

Are there any penalties for paying off my loans ahead of schedule?
No.

By paying off your loans ahead of schedule you may also save thousands of dollars in interest payments.

What if I can't afford to make my student loan payments?

As mentioned above, the federal government offers borrowers a variety of repayment options including limiting repayments to 10% of your annual income for up to 25 years. In the event of a job loss, the government will work with borrowers to prevent them from defaulting on their loans. Among the options offered to borrowers is a deferment (known as forbearance) of payments during their period of unemployment.

For more information on available federal student loan repayment options, click here.

Can federal student loans be forgiven?

There are certain programs which provide forgiveness to borrowers for a portion or all of their student debt. These include Teach for America; a federal program to entice recent college graduates to join the ranks of teachers. For more information on loan forgiveness, you may want to look at the following links:

- Loan forgiveness for those taking public service jobs. Also check here.

- Loan forgiveness for law school graduates. Also check here.

- Loan forgiveness for teachers.

- Loan forgiveness for health care workers. Also check here for information on loan forgiveness and scholarship opportunities for health care professionals, nurses and faculty.

Finaid.org also provides a very good list of programs that offer differing degrees of loan forgiveness. The list includes a wide variety of volunteer and military programs.

What if I default on my federal student loans?

These loans have no statute of limitations for collection. That means the federal government can attempt to collect monies due from you at any future date. Furthermore, federal student loans cannot be forgiven through bankruptcy

Defaulting on student debt can result in a myriad of collection activities against the borrower that are used on no other type of loan. The government has the right to withhold tax refunds or even to garnish social security (including social security disability) payments until the balance of the loan is paid off. The government can also garnish your wages and tax returns or attach other assets (homes, cars, bank accounts, etcâ€¦) until the balance of the loan is paid off.

As with other loans, defaulting on student loans will harm your credit.

What is loan consolidation and is it something I should consider?

Each year when you take out student loans, you will be asked to sign an agreement for repayment. This is known as a Master Promissory Note. You can elect to have all of your loans placed under a single Master Promissory Note but many people overlook this option when initially applying for loans and end up having to make several payments each month. Loan consolidation addresses this issue.

Loan consolidation on student loans can generally occur after graduation, if you drop out or if you drop below half-time student status.

There is no application or origination fee to consolidate student loans and borrowers may also be able to stretch out their repayment period to 30 years; reducing their monthly payment.

Once a consolidation loan is issued, borrowers have one monthly payment.

Loan consolidation may not be for everyone. There are a variety of items to consider before applying for a consolidation loan, including the amount of interest that will be owed over the life of the loan and the ease of repayment with a single monthly payment vs. multiple payments when compared with your original loans.

Consolidated loans are not eligible for forgiveness so, if you are considering entering any of the programs mentioned above that provide loan forgiveness, you shouldnâ€™t consolidate your loans.

Borrowers can find information on loan consolidation from the Department of Education here. The application for consolidation loans and instructions for completing it can be found here.
Links to other articles in this series:

Part 1: Click Here

Part 2: Click Here

Part 3: Click Here
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