Repaying Student Debt

For most college students, graduation is a time of new beginnings. For those who have taken out student loans to help pay for their higher education, it's also time to begin repaying those loans. For the nation as a whole, there's a lot of money to repay; according to federal statistics, at the end of the 3nd quarter 2024, outstanding student loan debt stood at $1.61 *trillion*.[1] On an individual level, the numbers are also significant. According to research by the College Board, in the 2022-2023 academic year, the average, cumulative debt load of those who had student loans and who received a Bachelor's Degree was $29,300.[2]

And repaying that debt as soon as practicable *is* important. For a recent graduate, typically beginning a lifetime career, the burden of student debt can have long -term consequences. Further education, job prospects, and saving for common goals such as retirement and buying a home are all affected by student debt.

So, what are some of the ways to repay this debt?

Federal Student Loans

The vast majority of student debt in the U.S. is provided through programs run by the federal government, via the U.S. Department of Education.[3] Recognizing that new graduates may have difficulty getting started in a career, the federal government has a number of ways this federal student loan debt[4] may be repaid, including (1) Fixed Payment Repayment Plans, and (2) Income Driven-Repayment (IDR) Plans.

Fixed Payment Repayment Plans

These plans base the monthly payment on the amount owed, the interest rate charged, and a fixed repayment time period, and include:

- **Standard repayment:** Payments are a fixed dollar amount that ensures that the loans are paid off within 10 years.[5]

---

[1] Federal Reserve Bank of New York: *Quarterly Report on Household Debt and Credit*, *3rd Quarter 2024*, September 2024.

[2] Trends in College Pricing and Student Aid, **2024**, published by the College Board, page 44. The value shown is the average cumulative debt of bachelor's degree recipients at public and private nonprofit four-year institutions.

[3] For the 2022-2023 academic year, federal student loans represented 87% of total student debt. See: Trends in College Pricing and Student Aid **2024** published by the College Board, page 38.

[4] They type of student loan eligible for a particular repayment program will vary.

[5] Within 10 to 30 years for consolidation loans.

- **Graduated repayment:** Payments are lower at first and then increase, usually every two years, in an amount to ensure that the loans will be paid off within 10 years.[5]

- **Extended repayment:** Payments may be fixed or graduated and will ensure that the loans are paid off within 25 years. To qualify for this program, a borrower must have more than $30,000 in Direct loans, or more than $30,000 in FEEL loans.

Income-Driven Repayment (IDR) Plans

Income-driven repayment plans generally base the monthly payment on how much a borrower makes and his or her family size. In some cases, a borrower may have no monthly payment due. Any remaining loan balance is forgiven if a federal student loan isn't repaid at the end of the repayment period.[1] There are four IDR plans available:

- **Saving on a Valuable Education (SAVE):** The SAVE repayment plan (formerly the REPAYE plan) typically limits required monthly payments to 10% of *discretionary income*, defined as the difference between a borrower's adjusted gross income (AGI) and 225% of the U.S. Department of Health and Human Services (HHS) Poverty Guideline amount for a borrower's family size and area of residence. If the calculated required monthly payment doesn't cover all of the accrued interest, the government will pay all of the interest that isn't covered by the required payment. Payments continue for 20 years if all loans are for undergraduate study, or 25 years if loans were taken out for graduate or professional study.

- **Pay as you earn (PAYE):** Required monthly payments are generally 10% of discretionary income, defined as the difference between a borrower's AGI and 150% of the HHS Poverty Guideline amounts for a borrower's family size and area of residence. If a borrower's income increases, payments will never be more than the 10-year standard repayment amount. If the required monthly payment doesn't cover all of the accrued interest, the government will pay all of the interest that isn't covered for up to three consecutive years from the date repayment begins under the PAYE plan. After the three-year interest subsidy period, interest not covered by the monthly payment will continue to accumulate and will be capitalized, i.e., added to the loan principal. Payments continue for 20 years.

[1] Under federal income tax law, there may be income tax due on forgiven loan amounts. Area or local law may vary.

- **Income based repayment IBR):** Payments are generally 10% of discretionary income, for a new borrower on or after July 1, 2014, but never more than the 10-year standard repayment amount, for a term of 20 years. For those who are *not* new borrowers on or after July 1, 2014, payments are generally 15% of discretionary income, but never more than the 10-year standard repayment amount, for a period of 25 years. Discretionary income is defined as 150% of the difference between a borrower's AGI and the HHS Poverty Guideline for a borrower's family size and area of residence. If the required monthly payment doesn't cover all of the accrued interest, the government will pay all of the interest that isn't covered for up to three consecutive years from the date repayment begins under the IBR plan. After the three-year interest subsidy period, interest not covered by the monthly payment will continue to accumulate and will be capitalized, i.e., added to the loan principal.

- **Income contingent repayment (ICR):** Payments are the *lesser* of (a) 20% of a borrower's discretionary income (the difference between the borrower's AGI and 100% of the HHS Poverty Guideline for the borrower's family size and area of residence), or (b) what a borrower would pay on a repayment plan with a fixed payment over the course of 12 years, adjusted for the borrower's income. Payments continue for 25 years or until the loan is paid off. If a monthly payment is insufficient to cover all of the interest that accrues each month, the interest will continue to accumulate, and the borrower will be responsible for paying the full amount of the interest due. However, the interest will *not* be capitalized, i.e., added to the principal amount of the loan.

Other Possibilities

- **Income sensitive repayment (ISR):** The income sensitive repayment plan is *only* available to low-income borrowers who have Federal Family Education Loan (FFEL) Program loans. Under this plan, payments increase or decrease based on a borrower's annual income, and are made for a maximum period of 10 years. The formula for determining the monthly payment will vary from lender to lender.

- **Federal student loan consolidation:** Federal student loans of various types may be consolidated into a single federal student loan. Frequently, the monthly payments can be lower, but the payment term will usually be extended.

- **Loan forgiveness, cancellation, or discharge:** Certain types of federal student loans can be "forgiven" in return for working for certain governmental or not-for-profit organizations. Serving in the U. S. military can result in some student debt being paid for you. Federal student loans may also be discharged in case of death or disability.

Other Sources of Student Loans

Other student loans come from a number of sources such as home-equity loans, credit card loans, loans from parents, signature loans, or loans from the college or university itself. Repayment of these loans is subject to the terms agreed to when the loan was made.

In certain situations, it may make sense to combine all federal student loans into one, consolidated *private* loan. However, doing this will eliminate any possibility of the federal debt being forgiven for public service employment.

Making the Repayment Process Easier

The ultimate goal is to pay off all accumulated student debt as quickly as possible. Not only does this save money (less interest is paid), but paying off the debt allows the borrower to quickly move on with his or her life. Steps to achieve this include:

- Organize – Be sure you understand the terms of each loan that you owe. Information about your federal student loans can be found by logging into your account on https://studentaid.gov/. Any other debt can be determined by contacting the lender or by checking your credit report at https://www.annualcreditreport.com. Being organized can help if you decide to take advantage of strategies such as repaying the loans with the highest interest rate first, or, to boost your confidence, paying off the smallest balance loan first.
- If possible, make some payments while still in school.
- Budget carefully to avoid spending money on non-essential items.
- Make more than the minimum payment; be sure the lender applies the extra payment amount to *principal*, rather than paying ahead on the next payment.
- Make payments every two weeks; a bi-weekly payment can provide surprising savings.

- Extra cash – A larger than expected income tax refund or a raise could be used to make extra principal payments.
- Automatic payment – many lenders will charge lower interest rates for loans set up to be repaid via an automatic withdrawal from your bank account.
- Tax breaks – Under current federal law, up to $2,500 in higher-education loan interest can be deducted from your taxable income. Certain limits apply.

Coronavirus Aid, Relief, and Economic Security (CARES) Act

The CARES Act provided relief to student loan borrowers whose debt was owned by the U. S. Department of Education. From March 13, 2020 – September 30, 2020, these loans were placed in "administrative forbearance," with a 0% rate of interest, allowing borrowers to stop making payments. Since then, this repayment "pause" has been extended multiple times. The Biden administration has extended the repayment pause a final time, to December 31, 2022, with normal payments and collections resuming in January 2023.

Generally, this provision applies to (1) defaulted and non-defaulted Direct loans; (2) defaulted and non-defaulted FFEL program loans; and (3) Federal Perkins loans.[1]

Making Loan Repayment More Manageable

On August 24, 2022, President Joe Biden announced a multi-part plan to aid Americans with higher education debt. One part of this plan involved the proposed creation of new income-driven repayment plans that would (1) require borrowers to pay no more than 5% (versus 10% currently) of their discretionary income toward undergraduate loans; (2) increase the amount of income that is considered non-discretionary, and thus protected from repayment; (3) forgive loan balances after 10 years (versus 20 years) for borrowers with loan balances of $12,000 or less; and (4) cover the borrower's unpaid monthly interest, to keep the loan balance from growing, as long as the borrower makes regular monthly payments.

[1] Some FFEL Program loans are owned by commercial lenders. Some Perkins loans are owned by educational institutions. These loans are not covered by the "administrative forbearance" provided in the CARES Act.

Get Help When You Need It

Navigating the maze of student loan repayment options and strategies can be confusing. There's no shame in asking for help when it's needed. The advice and guidance of qualified student loan advisers or other qualified financial professionals is highly recommended.

Online Resources

- U.S. Department of Education - https://www.ed.gov/
- Federal Student Aid - https://studentaid.gov/
- Federal Student Aid – Loan Simulator – the simulator can be used to compare the various loan repayment options, including whether to consolidate student loans: https://studentaid.gov/loan-simulator/
- Federal Trade Commission - https://www.consumer.ftc.gov/credit-loans-debt
- Consumer Finance Protection Bureau - https://www.consumerfinance.gov/
- FinAid - https://www.finaid.org/