

PAYING FOR COLLEGE

Make a Plan to Start Repaying Student Loans

The pandemic-era pause on student loan repayments is scheduled to end January 31, 2022. If you can't afford payments, you have options.



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In an effort to provide economic relief during the pandemic, the federal government suspended payments on federal student loans last year, with no interest accrual on loan balances. The moratorium, already extended a couple of times, was extended again in August, this time until January 31, 2022. Borrowers can expect to hear from their loan servicers by the end of the year about the date their payments will resume.

Time to refinance? In addition to a notice from your loan servicer, you may receive fliers or e-mails from private lenders offering to refinance your student loans at interest rates as low as 2.5%.

The best private-loan deals are limited to borrowers with excellent credit or a co-signer. But even if you qualify to refinance at a lower rate, you may want to wait. If President Biden fulfills his pledge to forgive up to \$10,000 in student loan debt, it will likely be limited to federal loans. And once you refinance to a private loan, you can't refinance back to a federal loan.

Another reason to wait: Rates on private student loans are likely to remain low through the end of 2022, says Mark Kantrowitz, a financial aid expert and author of *How to Appeal for More College Financial Aid*, which means borrowers interested in refinancing have plenty of time to consider their options.

If you still think it's a good idea to refinance to a private loan, read the fine print on any offer you are considering. Some plans offer low interest rates in the first year and hike them later. But it's important that you do not refinance unless you're confident you can afford payments under the plan you're considering. Options for private loans for borrowers who are unemployed or experiencing other economic difficulties generally aren't as flexible as federal loans.

However, if you already have private student loans, there's no reason not to look into refinancing to a loan with a lower rate. Be sure to compare the monthly payment with the total cost when you are considering consolidating or refinancing student loans, Kantrowitz says. Simply extending your payment period will lower your monthly payments, but you could pay thousands of dollars more in interest by the time you pay off the loan.

To avoid interest-rate hikes down the road, look for a low fixed rate rather than a variable rate. And if you can afford it, you may also want to consider a shorter repayment term. Although your monthly payments may go up, you'll save on interest and get out of debt sooner. Most lenders offer loan repayment terms of 10, 15 and 20 years.

Options for federal loans. If your budget can't handle payments on your federal student loans, you may be eligible to lower them by enrolling in an income-driven repayment (IDR) plan. There are several IDR plans available through the Department of Education, but all base your monthly payments on your earnings. If you're already enrolled in an income-driven plan and your income has declined considerably, you can also ask your loan servicer to recertify your income and recalculate the payment, which could dip as low as \$0. You can apply for an IDR plan at <https://StudentAid.gov/app/ibrInstructions.action> and select the plan that you qualify for that will provide you with the lowest monthly payment. You may end up paying more in interest in the long run because you're extending the repayment period, but after 20 years of payments, you may be eligible to have the balance forgiven.

If you can't afford to make payments at all, you may qualify for deferment or a forbearance. There are two types of deferments: economic hardship and unemployment deferment. You must be out of work to qualify for the unemployment deferment, but you may qualify for economic hardship if you're receiving federal or state public assistance, you're a Peace Corps volunteer, you're working full-time but earn less than or equal to the federal minimum wage, or you have income that's less than or equal to 150% of the poverty line for your family size and state (about \$26,000 for a two-person household).

Both of these options, as well as general forbearance, are available for up to three years, and you can use a combination of deferments and forbearance for up to nine years. Interest may continue to accrue while payments are suspended, depending on the type of loan you have. A subsidized or Perkins loan, for example, will not accrue interest during a forbearance or deferment. For other loans, the interest that accrues while payments are suspended will likely be added to the loan balance at the end of the deferment or forbearance period.

Prepare to pay. Once you decide your path forward, calculate your payment. For federal loans, you can use the loan simulator tool at <https://StudentAid.gov/loan-simulator>. If you haven't already checked, be sure that your loan servicer has your current contact information. If you

signed up for automatic payments, you may be required to confirm that your bank account information has not changed.

Another step to consider before the end of the federal payment suspension is whether to request refunds for payments made after March 13, 2020. Any payment you made during the suspension of payments can be refunded, which is useful if you need the money or think you will in the future. Contact your loan servicer before January 31. The call centers may be busy, so you may get better results by using your lender's online contact forms.

Finally, be on guard against fraud. The Department of Education says student loan borrowers have received phone calls, e-mails, letters and texts warning them that the suspension program will end soon and offering debt relief. Usually, companies offering these types of services don't offer any relief, and some are crooks looking to take advantage of vulnerable borrowers.

NYSUT Note: NYSUT members have access to the NYSUT Member Benefits Corporation-endorsed Cambridge Credit Counseling program, which helps members better understand their student loan re-payment options. Find out how to get your free debt and student loan consultation with one of Cambridge's certified counselors by [visiting here](#).

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