

Life Events: Student Debt (I/IV)

What do I need to know about my student loans and when does repayment begin?

- **There are 3 main categories of student loans:**
 - 1. Private** - If you borrowed loans from a private bank or company, it is a credit-based loan and your loan agreement will determine the repayment terms of your loan including when repayment begins. If you are unsure who your lender is, you may obtain a free credit report to determine your lender information via www.annualcreditreport.com
 - 2. Federal - Federal loans fall into the following main categories:**
 - Subsidized - Need-based loans where the interest is paid by the government during periods of at least half-time enrollment with a 6-mo. grace period before repayment begins
 - Unsubsidized - Not need-based, interest begins accruing as soon as loan is fully disbursed with a 6-mo. grace period before repayment begins
 - Grad or Parent PLUS - Unsubsidized loans at higher interest rates, Parent PLUS is always in the parent's name and cannot be transferred later to the student and goes into repayment immediately unless in-school deferment is requested on the PLUS loan application
 - FFEL - Older federal loans issued by lenders prior to the 2010 federal Direct loan program
 - Log in to studentaid.gov to see your loans and estimate your monthly repayment costs
 - 3. Institutional** - Student loans issued by the educational institution attended including federal Health Professions loans (has a 12-month grace period) and Perkins loans (which ceased being issued in 2017 and had a 9-month grace period)

How will student loan repayment work?

- **Repayment options vary according to the type of student loan:**
- **Federal loan repayment options include:**
 - Standard - Even monthly payments over 10 years, usually results in the lowest total repayment amount and is the default repayment plan
 - Graduated - Payment amount starts lower then increases every 2 years to a higher amount over 10 years
 - Extended or Extended Graduated - Term may extend beyond 10 years up to 25 years and be flat or increase every 2 years (graduated) if borrower has over \$30,000 in federal student loans
 - Income-Driven Repayment Plans - Set of repayment methods that may base your payments on your amount of debt, income and family size to reduce monthly payments but, as a result, typically increases interest costs; loan forgiveness programs require income-based repayment plans, resulting in lower principal repaid and higher balances forgiven
- **Private / institutional loan repayment options** vary and are determined by the original loan agreement terms

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Are there federal loan forgiveness programs I should know about?

- Federal student loans offer safety nets that may benefit borrowers such as income-driven repayment methods and possible loan forgiveness programs some of which are listed below.

Forgiveness Program	Terms
Teacher Loan Forgiveness	<ul style="list-style-type: none"> • Teach full-time for five complete and consecutive academic years in a low-income school or educational service agency • Eligible for forgiveness of \$5,000 or up to \$17,500 on your Direct subsidized and unsubsidized loans depending on your teaching role
Public Service Loan Forgiveness	<ul style="list-style-type: none"> • Make 120 qualified payments while working full time in qualified public service work in government or non-profit employment • Must use an income-driven repayment method and certify your employment via an Employment Certification Form provided to federal loan servicer • Amount forgiven after the 120th payment is not treated as taxable income
Perkins Loan Cancellation	<ul style="list-style-type: none"> • Borrower cancellation and discharge available for certain public service professions via the education institution loan was issued by or their servicing agent

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What is student loan consolidation versus refinancing?

• **Federal direct loan consolidation:**

- Combines your federal loans into one new loan with a weighted-average fixed interest rate with one federal loan servicer which you select
- This can ease administration if you have several different loan servicers that you are managing. It can also reduce your monthly payments by extending your repayment term, but this results in increased interest costs
- Because the new interest rate is a weighted average of your current loans it does not effectively result in a lower interest rate

• **Private loan refinancing:**

- A credit-based application whereby loans may be combined into a new credit-based loan with a new fixed or variable interest rate based on your credit worthiness and/or a co-applicant's credit worthiness
- Refinancing your student loans may or may not lower your interest rate depending on your credit situation
- Keep in mind, refinancing your federal student loans converts them to private loans and thus you lose federal student loan safety nets as you will no longer qualify for income-driven repayment methods, federal loan forgiveness opportunities, etc. after refinancing federal loans

	Student loan consolidation	Student loan refinancing
What does it do?	Combines multiple federal loans into one federal loan.	Combines private and/or federal loans into one private loan.
Which loans can I combine?	Federal loans only.	Private and/or federal loans.
Can I lower my rates?	No.	Yes.
Can I save money?	No. Consolidation may lower your payments by extending the loan term, but your interest amount will increase.	Yes.
Can I access federal loan protections, repayment options and forgiveness programs?	Yes.	No.
Will I pay just one monthly bill?	Yes.	Yes.

Source: Nerdwallet.com

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What are some recommended student loan repayment tips / best practices?

- Determine if you qualify for any student loan forgiveness programs
- Prepare a monthly budget to determine how much you can afford to repay on your student loans
- Accelerate repayment on highest interest rate debt first, unless you qualify for public service loan forgiveness then you will want to pay as little as required to have more forgiven
- Set up your student loan payments for auto-pay from a bank account to stay on time and get a 0.25% interest rate reduction on federal loans
- If you have multiple loans, use a “Snowball” approach by prioritizing paying off higher rates first, or consider loan consolidation if your loans are held with multiple loan servicers or you want to move loans into the federal Direct program to qualify for Direct loan benefits
- If your credit worthiness is excellent or very good, consider refinancing to lower your interest rates but first ensure you do not need the federal loan safety nets as those benefits are lost upon refinancing federal loans
- Remember to deduct any student loan interest paid on your federal income tax return if you qualify
- Keep in mind that student loans tend to be less expensive than other forms of credit (e.g., credit cards) and the interest may be tax deductible; when considering accelerating repayment, prioritize higher interest debt and possibly long-term savings
- Work with your financial advisor to determine an appropriate repayment strategy and modify as circumstances change
- Your employer may provide student loan repayment as an employee benefit as well. Also, as of 2024 employers may provide a 401(k) contribution match based on a workers’ student loan payments, even if the employee doesn’t contribute directly to their own 401(k) plan

Supporting Information



Last Reviewed

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Key Sources and Further Reading

Federal Student Loans

- <https://studentaid.gov/loan-simulator/>
- <https://studentaid.gov/manage-loans/repayment/plans/income-driven>
- <https://studentaid.gov/manage-loans/forgiveness-cancellation/teacher>
- <https://studentaid.gov/manage-loans/forgiveness-cancellation/public-service>
- <https://studentaid.gov/manage-loans/forgiveness-cancellation/debt-relief-info>

Other Resources

Credit Report Review

- <https://annualcreditreport.com>
- Consolidation Versus Refinancing
- <https://www.nerdwallet.com/article/loans/student-loans/student-loan-consolidation-myths>
- Student Loan Interest Deduction
- <https://www.forbes.com/advisor/taxes/student-loan-interest-tax-deduction/>

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