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Federal Student Loan Repayment Do’s & Don’ts

College graduates with Federal student loans have a number of repayment options at their disposal. This guide will walk you through your options so you can make an informed decision when choosing a repayment method.

Get Started

Forbearance

College graduates with federal student loans have the option to forbear, or not make payments on their student loans for up to 36 months without having to give a reason.

During forbearance, the interest on both subsidized and unsubsidized loans is accruing and capitalizes every 12 months. As a result, borrowers accrue more interest in each subsequent year that they utilize forbearance and the loans start to snowball. However, forbearance has no impact on a borrower's credit.

The process is as simple as a phone call to your Federal loan servicer – significantly easier than application and document gathering needed to utilize Income-Driven Repayment programs (IDR).

For more information, go to the Federal Student Aid website at StudentAid.gov/deferment-forbearance

Watch out!

Federal loan servicers have come under scrutiny in the past for encouraging borrowers to leverage forbearance rather than enroll in IDR.

Consolidation & Standard Repayment

Upon graduation, federal loan borrowers are granted a six-month grace period before their first loan payment comes due.

If no action is taken, they'll default into the ten-year standard repayment plan. This means they'll make the same payment every month for ten years, resulting in the loan being completely paid off. Ten years is the shortest standard repayment term offered by the Federal Government.

If borrowers want a longer term, they often need to consolidate their loans to reach loan balance thresholds, qualifying them for longer-term loans.

For more information, go to the Federal Student Aid website at StudentAid.gov/repay

Loan Balance	Maximum Loan Term
Less than $7,500	10 years
$7,500 to $9,999	12 years
$10,000 to $19,999	15 years
$20,000 to $39,999	20 years
$40,000 to $59,999	25 years
$60,000 or more	30 years

Keep in mind

1. Consolidation loans take the weighted average interest rate of all loans included in the consolidation and round that up to the nearest 1/8th percent, resulting in a higher weighted average interest rate than where they started.
2. Once all loans are consolidated, borrowers can no longer implement a targeted repayment approach, paying down their highest rate loans more aggressively since they now have one loan.

Income-Driven Repayment (IDR)

Income-driven repayment was introduced to provide borrowers with options other than forbearance when they have trouble making monthly payments.

There are currently three primary income-driven options, Income-Based Rerpayment (IBR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE), all of which adjust the borrower's payments based solely on their adjusted gross income and family size – not how much they owe.

For more information, go to the Federal Student Aid website at StudentAid.gov/idr

Program Comparison

How Monthly Payments are Calculated

(Adjusted Gross Income − 150% of Poverty Guideline for family size) × 10% or 15% Depending on program ÷ 12 months

Compare your options.

Use our free student loan assessment tool to get a breakdown of montly payments, interest, and amount forgiven for each program at **laurelroad.com/loantool**

IDR Program Comparison

Use the toggles below to compare the terms of the different programs

Monthly Payment | Loan Terms | Interest | Eligibility

IBR

Income-Based Repayment

- 15% of discretionary income.
- Monthly payments are capped at the 10-year term payment for the borrower's given amount of debt.
- Spouse's income is included in monthly payment calculation only if taxes are filed jointly.

PAYE

Pay As You Earn

- 10% of discretionary income.
- Monthly payments are capped at the 10-year term payment for the borrower's given amount of debt.
- Spouse's income is included in monthly payment calculation only if taxes are filed jointly.

REPAYE

Revised Pay As You Earn

- 10% of discretionary income.
- Monthly payments are not capped and will always be 10% of discretionary income.
- Spouse's income is included in monthly payment calculation regardless of filing status.

IDR Program Comparison

Use the toggles below to compare the terms of the different programs

Monthly Payment | Loan Terms | Interest | Eligibility

IBR
Income-Based Repayment

- 25 years of payments results in forgiveness.
- The amount forgiven is considered taxable income.

PAYE
Pay As You Earn

- 20 years of payments results in forgiveness.
- The amount forgiven is considered taxable income.

REPAYE
Revised Pay As You Earn

- Undergraduate borrowers: 20 years of payments results in forgiveness.
- Graduate borrowers: 25 years of payments results in forgiveness.
- The amount forgiven is considered taxable income.

IDR Program Comparison

Use the toggles below to compare the terms of the different programs

Monthly Payment | Loan Terms | Interest | Eligibility

IBR
Income-Based Repayment

- Monthly unpaid interest on subsidized loans is covered for the first 3 years of enrollment.
- Unpaid interest does not capitalize until 15% of the borrower's monthly income equals or exceeds their 10-year term monthly payment.

PAYE
Pay As You Earn

- Monthly unpaid interest on subsidized loans is covered for the first 3 years of enrollment.
- Unpaid interest does not capitalize until 10% of the borrower's monthly income equals or exceeds their 10-year term monthly payment.

REPAYE
Revised Pay As You Earn

- Monthly unpaid interest on subsidized loans is covered for the first 3 years of enrollment.
- **50% of unpaid interest on all other loans is subsidized.**
- Unpaid interest does not capitalize under REPAYE unless the borrower leaves the plan

IDR Program Comparison

Use the toggles below to compare the terms of the different programs

Monthly Payment | Loan Terms | Interest | **Eligibility**

IBR
Income-Based Repayment

- All federal student loans besides PLUS loans made to parents. Loans may need to be consolidated.
- Calculated monthly payment must be less than the 10-year Standard Repayment Plan.

PAYE
Pay As You Earn

- All federal student loans besides PLUS loans made to parents. Loans may need to be consolidated.
- Calculated monthly payment must be less than the 10-year Standard Repayment Plan.
- New borrower as of Oct. 1, 2007, and received a disbursement of a Direct Loan on or after Oct. 1, 2011.

REPAYE
Revised Pay As You Earn

- All federal student loans. Loans may need to be consolidated.

Public Service Loan Forgiveness (PSLF)

Public Service Loan Forgiveness allows borrowers employed at non-profits and government entities to have their loans forgiven after ten-years of income-driven payments, entirely tax-free.

There are a number of misconceptions about PSLF. The first is that borrowers need to "sign up" or "commit" to the program. Neither of these are the case as pursuing PSLF is all about positioning your loans and your employment such that they meet the program requirements.

While there is no paperwork required to pursue PSLF, there is an Employment Certification Form (ECF) that that borrowers must have filled out by their employer at least once prior to their loans being forgiven. Submitting it also triggers an automatic transfer of the loans to Fedloan Servicing. While it's been positioned as a "sign up" for PSLF, the reality is it just notifies the Department of Education that you're planning on pursuing loan forgiveness.

For more information, go to the Federal Student Aid website at StudentAid.gov/publicservice

Program Requirements

Change is in the air

The Department of Education introduced Public Service Loan Forgiveness as a benefit to teachers, social workers, firefighters, etc., underestimating the number of professions with high earning potential like physicians and lawyers that would qualify. As a result there have been proposed changes to the program that could limit the amount that can be forgiven so be sure monitor these potential changes.

PSLF Requirements

Have Federal Direct Loans

Federal loans which are not Direct Loans may be consolidated into Direct Loans. This is often the first step for borrowers who have a wide array of loans which may include Perkins Loans, FFELP loans, etc.

Enrollment in IBR/PAYE/REPAYE

Borrowers use income-driven repayment to pursue PSLF. The 10-year standard plan is also a qualifying repayment program in the pursuit of PSLF, but it would result in the borrower having the loan entirely paid off at the time of forgiveness.

Work fulltime at a 501c3 or government entity

Fulltime employment is considered to be 30 hours a week. It is not uncommon for borrowers to fulfill the 30 hour/week requirement at a non-profit and then work another 20 hours a week at a for-profit. This would still meet the program requirement.

Make 120 on-time payments

12 payments a year for ten years will result in tax-free forgiveness of any remaining balance. These payments do not need to be consecutive, so if a borrower worked in the private sector for a period-of-time and came back, they'd pick up where they left off progress wise. Unfortunately, borrowers can't accelerate the payments by paying extra to get to the forgiveness point early.

Proposed Legislative Changes

While there have been a number of changes proposed to these programs over the years, they very often fall by the wayside. However, with the Higher Education Act due to be reauthorized in 2018, there are likely changes coming as part of the Proper Act.

Eliminating PSLF

though existing borrowers would likely be grandfathered through

Reducing the Federal repayment options

to just the 10-year standard plan and one income-based program where the borrower pays 15% of discretionary income. Forgiveness would occur once the borrower has repaid the total out of pocket amount that they would have paid if they were on a ten-year repayment term.

Eliminating PLUS loans

in favor of a new "ONE Loan Program." The ONE loan program will carry no origination fees but will put a cap on the annual and aggregate loan amounts for graduate students. Annual cap = $28,500, Aggregate cap = $150,000. Medical and dental schools will have higher aggregate caps likely around $180,000 - $200,000. Currently, there is no limit on the number of Federal loans a student can take out.

Student Loan Repayment as it Relates to Physicians

Federal Repayment Options

Forbearance

Despite being the costliest way to approach loans, it's not uncommon to see medical residents use forbearance throughout residency. With $200k+ in debt and high earning potential, they're often desensitized to the impact another few thousand dollars of interest has during training. This, combined with the logistics of enrolling in IDR or refinancing, results in an estimated 20-30% of residents utilizing forbearance during training.

Consolidation and Standard Repayment

Given these balance minimums and the high average debt of physicians, most of them can qualify for up to 30-year repayment terms which will result in a significant amount of interest accrual.

Income-Driven Repayment

IDR is a must for those planning on pursuing PSLF. If someone is eligible for PSLF, we need to make clear that it is very often the optimal repayment strategy. IDR can be far more than a stopgap repayment program for physicians.

Unsure if you would benefit from Income-driven Federal Student Loan Repayment Plans?

Use our free student loan assessment tool at **laurelroad.com/loantool**

Income-Driven Repayment Considerations

Monthly payments

Especially when pursuing forgiveness, PAYE and REPAYE are preferable to IBR because of the lower monthly payment obligations.

Interest Subsidies

Residents utilizing IDR should enroll in REPAYE during training to recieve a 50% interest subsidy. This benefit stands to save them $3,000 - $5,000 a year, and often results in an effective interest rate of around 4% during training. Residents with a high earning spouse, however, would not benefit from the subsidies under REPAYE.

Interest Capitalization

IDR programs do not capitalize unpaid interest. This means a resident paying $200/month and accruing $1,000 a month in interest would not see their unpaid $800 compound and accrue more interest the next month. This makes IDR programs preferable to forbearance during training. The unpaid interest does capitalize when when their monthly payment equals the 10-year standard payment for their given amount of debt.

Forgiveness through IDR

PAYE is the ideal for physician planning on pursuing forgiveness through IDR itself. They give up the interest subsidy from REPAYE that is available during residency but see forgiveness in 20 years rather than 25.

Payment Maximums

A high earning practicing physician who is pursuing Public Service Loan Forgiveness would want to switch from REPAYE to PAYE to take advantage of the payment cap.

Impact of a Working Spouse

Borrowers can have only their individual income considered when calculating monthly payments through IBR and PAYE by filing taxes separately, which would be advisable if they were planning on pursuing forgiveness. It does come at a cost as those filing separately lose a number of tax deductions and benefits so a cost-benefit analysis must be performed by a tax professional.

Public Service Loan Forgiveness as it Relates to Physicians

Most physicians need to begin pursuing Public Service Loan Forgiveness during residency to benefit.

It is the low payments generated by their training income which allows them to see significant amounts forgiven at the end of 10 years. Monthly payments during residency are typically in the $200 - $400 range, whereas payments as an attending physician are typically $1,700+ depending on income. So, the longer a physician is in training – making low monthly payments – the more they stand to benefit from PSLF. The likelihood is that any physician who had not set themselves up for PSLF during residency would not benefit from beginning to pursuing it as an attending. They would be better off refinancing.

When student loan refinancing makes sense.

Physicians working at a non-profit who could benefit from refinancing include:

Those with debt levels below $80k as they would be paid off prior to forgiveness

Those with private loans as they do not qualify for forgiveness

Those who don't believe they'll remain at a non-profit for more than ten years

Laurel Road offers low rates, personalized service and an online application process that makes refinancing smart and easy.

To learn more and apply online visit **laurelroad.com/student**

Student Loan Refinancing

By refinancing with Laurel Road, you may be able to save thousands on your student loan debt — and those savings could be redirected to meet your financial and/or lifestyle goals.

Want to learn more about your repayment options?

In our guide about student loan repayment, There's More Than One Way to Repay, we address some of the common questions about various repayment methods and highlight when refinancing might make the most sense.

Ready to get started?

It's taken hard work and determination, but you've earned your degree and your career is on the rise. Student loan repayment shouldn't be weighing you down. Laurel Road offers low rates, personalized service and an online application process that makes refinancing smart and easy. Use your hard-earned money to fund your future, not your past.

To learn more and check your rates online visit laurelroad.com/student.

*Savings vary based on rate and term of your existing and refinanced loan(s). Review your loan documentation for total cost of your refinanced loan.

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