

## STUDENT LOANS: GET OUT OF DEBT

**C**ollege grads face several hurdles when they enter the job market—student loan obligations being the most prevalent. Simply put, pay off as much as possible as quickly as you can. The more you can pay toward your loan’s principal, the faster you’ll pay off the loan—saving yourself costly interest payments. Whether you owe a small fortune or a modest advance, it’s imperative to familiarize yourself with some of the basics regarding student loans payoffs.

Lenders understand that most postgraduates usually don’t have the luxury of a high, disposable income, so most loans offer a grace period. You often will be allotted anywhere from six to nine months post-graduation before you need to begin repaying your loans. This gives you time to find a job and plan your options for repayment.

### REPAYMENT OPTIONS

Lenders offer various repayment plans that reflect the borrower’s ability to manage his or her financial responsibility. The original repayment plan, or standard repayment plan, calls for making equal payments over a 10-year period. Graduated repayment plans start out with low payments that gradually increase throughout the life of the loan.

Sometimes, a lender will offer an extended repayment option in which the time granted to pay off the loan could be extended up to 30 years. A small number of lenders offer an income-sensitive repayment plan in which your payments are directly proportional to increases or decreases in your annual income.

Loan consolidation, although technically not a repayment option, allows you to combine several student loans into one loan. In addition to the convenience of only writing one check each month, you sometimes have the luxury of receiving a lower interest rate.

Inquire with your lender about the different payment methods available as well as any special discounts. Some lenders may offer a slightly lower interest rate if you allow them to automatically deduct your payment from a checking account. Whatever you do, don’t fall victim to the costly monthly minimum payment trap. Accelerating your repayment

plan can save you hundreds if not thousands of dollars in interest.

### BUDGETING HELPS

In any case, you should start your repayment decision process by determining the amount of discretionary income that you have to put toward your student loan each month. Construct a budget to track your monthly income and expenses. Consider your income and your expenses. You can increase your income in the short-term by taking on a second part-time job. Some of the easiest expenses to cut are those associated with entertainment, luxuries and various discretionary items. It’s always possible to live on a tighter budget if you are willing to make certain sacrifices. You can live with your parents until you get a better grasp of your finances or get a roommate to share the cost of rent, utilities and food. Bring your lunch to work. If it’s practical, consider public transportation instead of buying a car.

You are always allowed to prepay the principal of student loans, partially or in full, without penalty. Any money you save through careful budgeting can be applied toward the principal of the loan, shortening the overall repayment term in addition to reducing interest charges.

A final note on student loans: don’t miss payments and don’t default. It can seriously affect your ability to make a major purchase—like a home—later in life. 📞

