



Barnum Financial Group

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Repaying Student Loans

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What is it?

When you take out a loan to pay for college or graduate school, you must repay that loan at some future date. If you find yourself in the position of having to budget every month for a student loan payment after graduation, you are not alone. A majority of students now borrow at least some money to help finance their education. Yet excessive student loan debt can have negative ramifications. For example, student loan debt may affect decisions to buy a home, a car, or to have children. Because student debt levels are likely to continue to increase as the cost of college and graduate school continues to outpace inflation, it is important to know how to manage student loan debt.

Repayment options

Because of the increasing number of students who now require student loans to finance their education and the increasing amount of their outstanding debt, many lenders have created flexible repayment options to help students successfully manage this large financial responsibility.

Along with the standard 10-year repayment plan, many lenders now offer graduated plans (your monthly payments start out low and increase over time), extended plans (you extend the time you have to repay for up to 30 years), income-sensitive plans (your payments are tied to your monthly income), and consolidation plans (you combine several loans into one loan with a lower monthly payment).

To learn which of these repayment options are available to you, you must first know who holds your student loans. Unfortunately, the world of student loans can be a tangled web involving money-lending institutions (such as banks, savings and loan associations, and credit unions), finance companies, collection agencies, guarantee agencies, student loan service organizations, colleges, state agencies, and, of course, the federal government.

When you know your repayment options, your next step is to determine, using a monthly budget, the amount of discretionary income you have available each month to put toward your student loan.

What happens if you can't repay your student loans?

Rare is the individual who hasn't run into difficulties at one time or another in repaying a student loan. If you do run into difficulty in repaying a student loan, perhaps you can take advantage of certain options offered by most lenders to help you out of your cash flow jam.

The primary way to postpone the repayment of your student loan is to request a deferment or forbearance from your lender. This is a temporary postponement based on well-established criteria, such as unemployment or a full-time return to graduate school. Alternatively, in some cases, you may be able to obtain a cancellation of your loan, which means you do not have to repay your loan at all. An example where a cancellation is generally granted is if you become totally disabled.

If you are unable to obtain a deferment or forbearance from your lender and you do not meet the requirements for cancellation, yet you are still unable to repay your student loans, then you will be in default. When you are in default on your student loans, your loan will likely be passed on to a collection agency. A collection agency is authorized to engage in some serious collection efforts to try and get you to pay, including letters, phone calls, wage garnishment, and tax refund interceptions.

As a last resort, you may decide to file for bankruptcy. However, be aware that there are special rules governing bankruptcy and student loans; not all student loans can be discharged in bankruptcy.

The student loan interest deduction

You can deduct up to \$2,500 each year of the interest you pay on qualified student loans, provided you meet income limits. In 2015, for single filers, a full student loan interest deduction is available with a modified adjusted gross income (MAGI) up to \$65,000 and a partial deduction is available with a MAGI between \$65,000 and \$80,000. For joint filers, a full deduction is available with a MAGI up to \$130,000 and a partial deduction is available with a MAGI between \$130,000 and \$160,000. The same limits applied for 2014.

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