

5E

NAVIGATOR

FEDERAL RESERVE BANK OF RICHMOND

Student Loans

Are yours afloat?

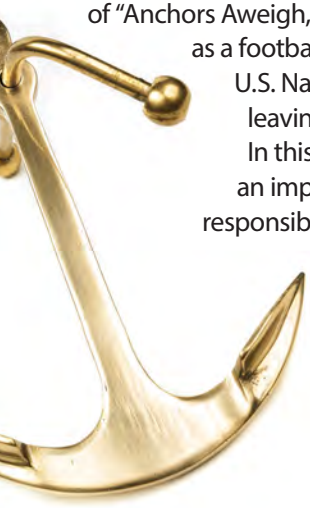


Inside:

- Beacons to guide student loan repayment
- Steering clear of student loan default

ALSO INSIDE: Navigating the waters of nondischargeability

ANCHORS AWEIGH: LET YOUR STUDENT LOAN VOYAGE BEGIN!



For this seafaring edition of *SE Navigator*, it is fitting that one of the most sung verses of “Anchors Aweigh,” originally composed as a football fight song for the U.S. Naval Academy, mentions leaving college joys behind. In this edition, we’re exploring an important post-college responsibility: student loan repayment.

Whether you’re a recent graduate out at sea or still on shore in school, it’s important to have a plan to actively manage student loan debt.

**“Anchors Aweigh,
my boys,
Anchors Aweigh.
Farewell to college joys,
we sail at break of
day-ay-ay-ay.
Through our last night
on shore, drink to
the foam, until we
meet once more:
Here’s wishing you a
happy voyage home.”**

*“Anchors Aweigh,” verse added by
George D. Lottman (1926)*

Inside you will find tools for loan management and tips for avoiding mismanagement.

Start by getting your *Sea Legs* under you by acquainting yourself with how student loans are different from other types of loans. Then, hit the high seas, but watch out for *Icebergs Ahead* that can sink your student loan ship. Let the *Beacons* be your guide to finding the information you need to manage your student loans effectively. Check in with your ship’s *Lookout* for a closer look at differences between federal and private student loans. If you’re having trouble managing your student loan payments, pull out your *Compass* to guide you through the available options to ensure a happy voyage home!

SEA LEGS: GETTING ACCLIMATED TO STUDENT LOANS

Before hitting the high seas of student loan management, it’s important to get your sea legs under you. Knowing how student loans are different from other types of loans can help you make informed decisions about how to manage repayment, particularly in potentially rough seas along your journey. As you set out across the bay, walk the deck to acquaint yourself with the unique qualities of student loans.

Student Loans

Unsecured

There is typically no collateral (property used to secure a loan) for student loans. If you default (fail to pay), the lender cannot recover their investment by selling your navigation skills.

No credit check

No one is checking your captain’s license. Most federal student loans do not depend on your credit history.

Nondischargeable

You cannot cancel your voyage after you leave port. Except under very limited circumstances, student loans are nondischargeable (cannot be cancelled or forgiven).

Other Loans

Secured

If you default on your mortgage or car loan, the lender can recover at least part of their investment by selling the house or car that serves as collateral.

Credit check

Lenders typically use credit scores to determine the likelihood that you will default on a loan.

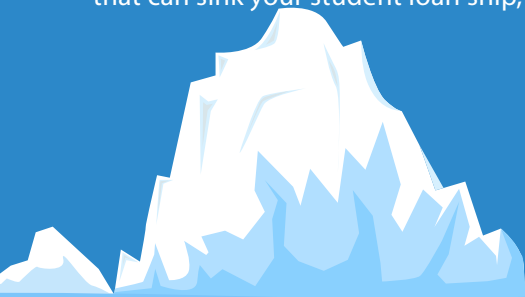
Dischargeable through bankruptcy

Bankruptcy may be an option if you are struggling to pay other types of unsecured loans, such as credit card debt.

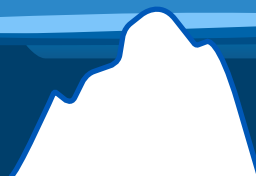
ICEBERGS AHEAD:

DANGERS IN AN OCEAN OF NONDISCHARGEABILITY

Student loans have to be repaid under most circumstances – whether or not you complete college, whether or not you find a job afterwards, and even if you file for bankruptcy. Given that student loans are very difficult to discharge, the dangers of student loan mismanagement are ever greater. As you set out on the high seas, watch out for these icebergs that can sink your student loan ship, and use the beacons to find calmer waters.



You borrow significantly more money than needed to cover school expenses. Now you have a higher monthly loan payment than you would otherwise.



You drop out junior year and discover several months later that you must repay your loans despite not graduating.



You don't know what student loans you have. When it comes time to repay, you neglect to pay one of your loans.



You fail to contact your loan servicer when you don't receive monthly statements. You don't receive important information about your loan.

BEACONS: GUIDES FOR SMOOTH SAILING



How can I find what loans I have?

For a list of all of your federal loans, visit the National Student Loan Data System at nslds.ed.gov. For private loans, you'll need to contact each of your private loan servicers or look for these loans by requesting a copy of your free credit report at AnnualCreditReport.com.



What types of repayment plans exist?

Visit the Federal Student Aid website at StudentAid.gov to see which repayment options are available. Check with your loan servicer for private loan repayment options, which may be more limited than federal loan options.



When will I have to start payment?

Repayment usually begins several months after completion of your education. Your loan servicer will provide you with a repayment schedule that states the due dates, amount, number and frequency of payments.



Why do I have multiple loan payments?

If you took out multiple loans to pay for your education, you'll have multiple payments to make. You may be able to consolidate your federal loans into a single payment. Refer to StudentAid.gov to see if this option is right for you.



Where do I send payments?

Payments should be made to your loan servicer by mail or online. You should receive a bill from your loan servicer, but even if you do not it is still your responsibility to meet your payment obligations.

LOOKOUT: FEDERAL VERSUS PRIVATE LOANS



Did you know there are distinct differences between federal and private loans that can affect your repayment? Let's take a closer look.

FEDERAL

- Repayment starts after you graduate or leave school.
- Interest rates are fixed during repayment.
- Multiple repayment options exist, including income-based repayment.
- You may be eligible to postpone or reduce payments to avoid default.

PRIVATE

- Repayment may begin while you are in school.
- Interest rates can vary during repayment.
- Repayment options are determined by each loan servicer.
- Loan servicers may not offer payment postponement or reduction options.

For more information on the differences between federal and private student loans, visit StudentAid.gov.

COMPASS: STEERING CLEAR OF LOAN DEFAULT

Defaulting on your student loans can have a number of serious consequences, including a damaged credit score, garnished wages and legal action. If you're having trouble making payments, pull out your compass to steer clear of the tidal wave of loan default.

1. Contact your loan servicer as soon as possible if you are unable to make payments.
2. First check with your loan servicer to see if you are eligible for a deferment, which may allow you to postpone repayment of principal and interest on your loans.
3. If you are not eligible for a deferment, you may be eligible for a forbearance, which allows you to postpone your payments while interest charges continue to accrue.
4. If you need a more affordable monthly payment, work with your loan servicer to discuss repayment plan options, including extended plans or plans based on your income and family size.

For more tips to avoid student loan default, visit StudentAid.gov.



PRIME MERIDIAN: THE FEDERAL RESERVE AND STUDENT LOANS

College is an investment that offers a "premium" to those who complete it. Over their lifetime, college-educated workers earn nearly twice as much as workers with a high-school diploma. Many people borrow to invest in college, but enrolling and not completing a college degree can leave them with debt without the accompanying premium. Through its financial education efforts, the Fed provides information that enables individuals to make informed choices about major financial decisions such as paying for college.

For more information, visit:

majorfinancialdecisions.org
richmondfed.org/education
federalreserveeducation.org

MISSION

5E Navigator provides **economics**-based information and tools in an **engaging** format to **educate** and **empower** people to **evaluate** their choices for important personal financial decisions. The information in *5E Navigator* is collected and developed by the Economic Education team at the Federal Reserve Bank of Richmond to serve as a resource for financial literacy practitioners, educators and the public.

richmondfed.org/publications

Feedback? Send to:
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