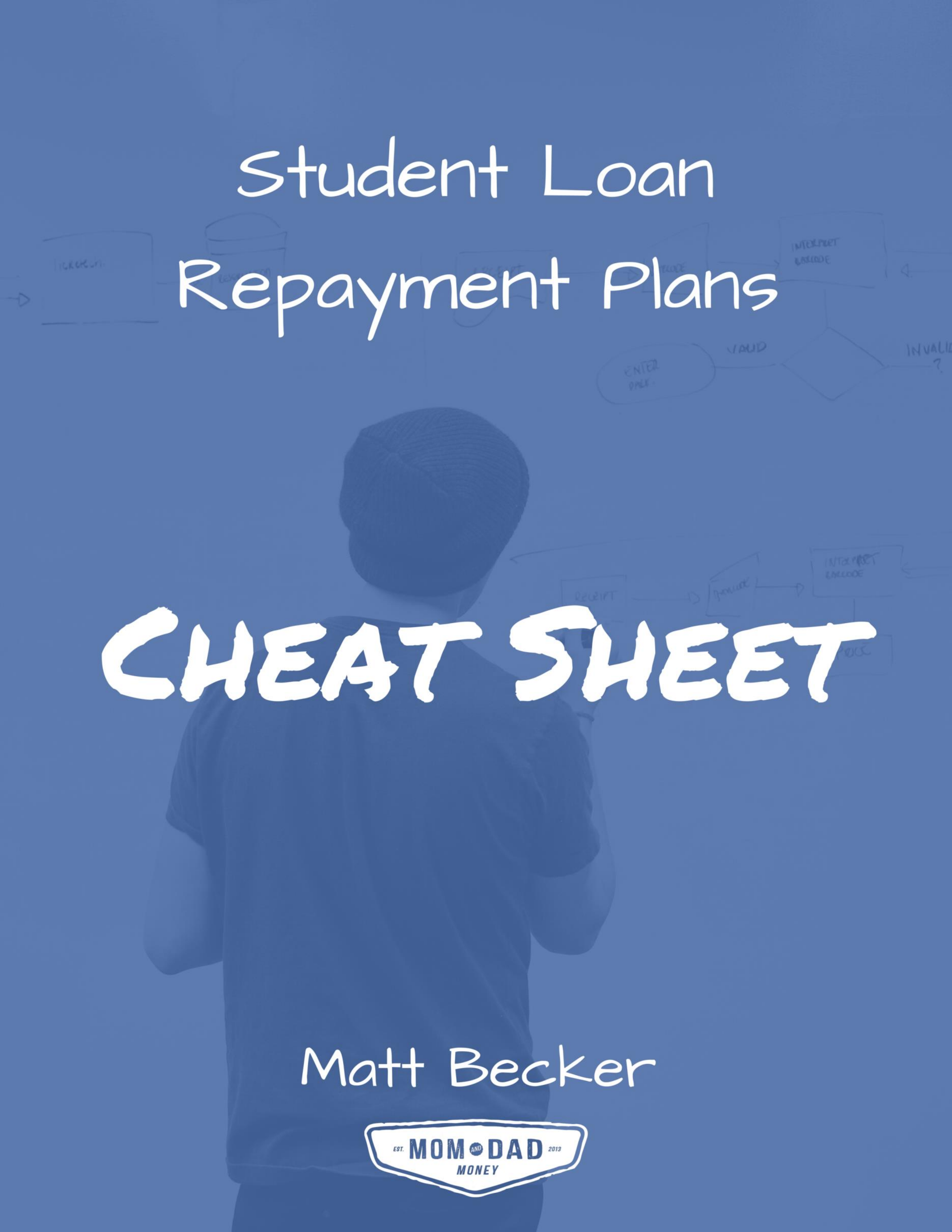

Student Loan Repayment Plans

Cheat Sheet

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Here is a quick and dirty guide to choosing the right student loan repayment plan. For all the details, please refer to the full article here: http://momanddadmoney.com/which-student-loan-repayment-plan-is-right-for-you.

Three Big Questions

1. Which repayment plan is most affordable right now?
2. Which one will save you the most money over the long-term?
3. Which one will help you get rid of your student loans the soonest?

Rule of Thumb

While there is no one-size-fits-all answer, there is a rule of thumb you can use to help guide your decision:

Choose the repayment plan that ALLOWS you the OPTION of a smaller monthly payment.

Two reasons why:

1. The smaller required monthly payment gives you more flexibility to ride out any tough financial stretches.
2. You ALWAYS have the option to pay more than the minimum.

Repayment Plans to Avoid

It's generally best to avoid the following repayment plans, simply because the government has introduced better repayment options over the years:

- Extended repayment
- Graduated repayment
- Income-sensitive repayment
- Income-contingent repayment

Repayment Plans to Consider

- Standard repayment
- Pay As You Earn (PAYE)
- Income-Based Repayment (IBR)
- Public Service Loan Forgiveness (PSLF)

Standard Repayment

Characteristics

- Generally a 10 year term. Can be as high as 30 years for consolidation loans.
- Fixed monthly payment of at least $50.

Pros

- Easy to enroll in (since you're enrolled by default).
- Short repayment period means you may minimize the interest paid over time.

Cons

- If you have significant debt, the monthly payment may be a strain on budget.
- There is no possibility for forgiveness.
- Your monthly payment is fixed, even if your income drops for a period of time.

Good for people who:

- Have relatively low debt compared to income.
- Want to pay off their student loans as quickly as possible.

Pay As You Earn (PAYE)

Characteristics

- Generally the most flexible option if you qualify.
- Monthly payment is capped at 10% of discretionary income.
- Monthly payment will never exceed what you would pay under standard 10 year repayment.
- After 20 years of payments, your remaining balance will be forgiven. The amount forgiven is taxable.
- You are always allowed to pay more than the minimum.

Pros

- Monthly payments fluctuate with income and are capped.
- You may receive some debt forgiveness.
- Option to pay loans off faster if you want.

Cons

- Longer repayment period can lead to more interest paid.
- More paperwork than standard repayment.
- Limited to federal direct student loans (may be able to consolidate certain non-eligible types of loans to make them eligible).
- Limited to people who were new borrowers as of 10/1/2007 and took out a student loan on or after 10/1/2011.

Good for people who:

- Have a significant amount of debt compared to income (approaching one years' salary in debt).
- Fit the qualification criteria.

Income-Based Repayment (IBR)

Characteristics

- Monthly payment is capped at 15% of discretionary income.
- Monthly payment will never exceed what you would pay under standard 10 year repayment.
- After 25 years of payments, your remaining balance will be forgiven. The amount forgiven is taxable.
- You are always allowed to pay more than the minimum.

Pros

- Easier to qualify for than Pay As You Earn.
- Monthly payments fluctuate with income and are capped.
- You may receive some debt forgiveness.
- Option to pay loans off faster if you want.

Cons

- Not quite as favorable as Pay As You Earn.
- Longer repayment period can lead to more interest paid.
- More paperwork than standard repayment.

Good for people who:

- Have a significant amount of debt compared to income (approaching one years' salary in debt).
- Don't qualify for Pay As You Earn.

Public Service Loan Forgiveness (PSLF)

Characteristics

- Allows government and non-profit employees to make 10 years' worth of payments and then have the entire remaining balance forgiven.
- The forgiven balance is completely tax-free.
- To qualify, you must:
    1. Work for the right type of company (generally government or non-profit).
    2. Work full-time (generally 30 hours per week).
    3. Have federal direct student loans.
    4. Make 120 qualifying monthly payments.
    5. Be enrolled in a qualifying repayment plan (standard or income-driven).

Pros

- Enrollment in an income-driven repayment means your payments fluctuate with income and are capped.
- Potential forgiveness of your remaining balance after just 10 years.
- Any forgiveness is completely tax-free.

Cons

- Limited to people working in certain industries.
- Significant requirements and paperwork needed to qualify.
- Smaller monthly payments can mean more interest paid over time.

Good for people who:

- Work for the government or a non-profit organization.
- Plan on staying there at least 10 years.
- Have a significant amount of debt compared to income (approaching one years' salary in debt).