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A Beginner's Guide to Repaying Student Loans

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Your Money

By RON LIEBER

Too many people, including plenty of brand-new college graduates, fall far behind on their student loan payments for no good reason.

How many? The Department of Education does not supply much data on late payments. But the student loan expert Mark Kantrowitz, using data from lenders, estimates that between one-quarter and one-third of borrowers are late paying their first student loan bill.

It can get worse as the days and years go by. Last year, the Federal Reserve Bank of New York, using 2012 data from the credit bureau Equifax, determined that 35 percent of people under 30 who were supposed to be making student loan payments each month were actually 90 or more days delinquent.

Whatever the numbers, they add up to a normalization of tardiness that can damage the credit scores of young adults. And one big reason it's happening is the fact that many among the indebted simply aren't sure how many loans they have, how and when to pay them back correctly and how to find and use programs for people who can't afford the full payments.

Let us pause for a moment to state the plain fact that the entire college financing system is a national disgrace. College costs are high, universities don't counsel undergraduates well enough, families get in over their heads, there are too many types of loans, the repayment options are dizzying, and lenders and the companies that collect the payments are sometimes bad actors.

But this column exists for the far-from-ideal world we have to live in today, one where if the trend lines that the New York Fed has outlined continue, half of all 25-year-olds who have credit reports will have student loan debt in a couple of years. This week, we're introducing a new student loan calculator. It can tell you what the average student loan debt is at schools you're considering, what sort of salary might make the debt affordable and how different repayment options could significantly affect what you ultimately spend.

What follows is a basic guide for rookie student-loan debtors that can keep people out of some of the most common types of trouble.

WHAT YOU OWE The idea that any grown-up might not know how many student loans they have probably seems outlandish. But many students have a few different types of loans and get new ones each year during the rush to get the bursar's approval to register for classes.

Universities don't always make loans easily comprehensible either. Lauren Asher, president of the Institute for College Access and Success, remembers getting a financial aid letter in graduate school with an acronym that was so confusing that she couldn't tell whether it referred to a loan or a grant.

So repayment needs to begin with an accounting of every individual loan. Start with whatever is in your files. Then check to see whether you're aware of all of your federal student loans. Borrowers can use the National Student Loan Data System website to get the details. (There are links to all of the resources I mention in the online version of this column, plus additional links to lengthy explanations of industry terms and programs.)

One critical piece of information you need: Who is the so-called servicer that will collect your payments each month on behalf of the federal government? You may have more than one, and you'll want to know how to contact them to ask any questions you may have about your payments.

In her book "CliffsNotes Graduation Debt," Reyna Gobel suggests starting a simple spreadsheet to track every loan. For people who need to track down all of their private loans from nongovernment lenders, she suggests they should get copies from annualcreditreport.com of all three of their credit reports. These loans should show up on at least one report, though not all loans may be on all of the reports.

Ms. Asher's organization publishes its own omnibus repayment guide on its site, as does Mr. Kantrowitz on his site finaid.org. The Department of Education's repayment information is worth a careful read too.

WHEN AND TO WHOM The first payments on your loans may be due at different times. Some federal loans give you a six-month grace period after you graduate while others give you nine months. With private loans, it varies.

Assume here (and really, everywhere throughout this process) that servicers will fail to find you and give you clear repayment instructions before the first payment is due. If you've moved or changed your email address since you took out your first loan and haven't told the servicers about it, be especially vigilant. Also, have user names and passwords at the ready so you can check accounts online and call if you need more information.

When you do pay, you may be able to send in one check even if you have multiple loans from multiple years with one servicer. Find out, as it can save you some hassle. Then check to make sure the servicer is crediting the payment properly to every loan.

Having the servicer pull the monthly payment from your checking account automatically can spare you some effort and risk, but that works only for people with regular sources of income who won't bounce the payments for lack of bank funds. Again, check for problems. Sometimes the direct debits don't start in the month they're supposed to.

TAKING LONGER The normal repayment period for federal student loans is 10 years. But depending on the loan and the balance, you may be able to lower your monthly payments by taking as long as 30 years to pay them off.

There are several ways to do this. One is through something called extended payment. Loan consolidation, where you combine many loans into a single one, is yet another possibility. If you want to consolidate all of your loans, make sure you don't forget one. You can also enroll in a graduated payment program while in consolidation (and in some other circumstances) that allows you to pay increasing amounts over time.

The big downside to taking more than a decade to pay is that the total interest costs can be much higher. The Student Loan Borrower Assistance Project of the National Consumer Law Center has an extensive guide to loan consolidation on its website that outlines these and other trade-offs.

INCOME-DRIVEN REPAYMENT For people without much income, there are several government programs that set payments on federal student loans based on how much money you make. You can see a list of them on the right side of the Department of Education’s main income-based repayment web page. To see what your payment might be under the plans, visit its repayment estimator page. Your servicer will determine whether your income is low enough to make you eligible.

The income-driven payments may cause you to spend more on interest over time than you might have otherwise. Under certain circumstances, the federal government may eventually forgive the debt after a number of years as well.

Sallie Mae, which said earlier this year that “nearly” 85 percent of its federal and private loan customers who were supposed to be making monthly payments were in fact up-to-date, offers one additional tip: If you’re confused or having trouble making payments, talk to your servicer.

Sallie Mae and Navient, a new company that was formerly part of Sallie Mae, settled charges this week that Sallie Mae had overcharged members of the military. That embarrassing event aside, however, the company succeeded in getting late federal loan customers back on track 90 percent of the time, when it could reach them, said a Navient spokeswoman, Patricia Christel, about Sallie Mae’s efforts.

As for those who had defaulted on their loans entirely, which happens after at least 270 days of no payments, only 10 percent of them ever answered the company’s calls or tried to reach out themselves.

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