STUDENT LOANS CONSUMER ADVISORY

To protect themselves from unaffordable repayment plans and damage to their credit score, it's important for student loan borrowers to be familiar with all of the repayment options available to them. When they are approved for a student loan, borrowers should review the loan type and know when they need to start making payments. Borrowers should communicate regularly with their loan servicer and utilize online account management tools to ensure their loan is in good standing and their payments are recorded accurately.

BEWARE: Your student loan servicer may attempt to steer you away from income-based repayment plans that have lower monthly payments and into standard payment plans that are easier for them to service.

California's Student Loan Market

54% of California students graduate college with student loan debt balances averaging more than $22,000. As of January 2015, 4,156,000 student loan borrowers in California owed a combined $112 billion in student loan debt. 41 million Americans owe a total of $1.2 trillion in student loan debt, surpassing both auto loan and credit card debts.

Many students leaving school are unaware of when their first payment will be due. They may have six months until they have to start paying or they may have to start making payments right after graduation. Borrowers may not know the difference between forbearance and a deferment. They may not know that there are different types of payment plans or that there are income based payment plans that allow borrowers to pay very little while they're not making much money. There are even loan forgiveness plans for borrowers who work in certain professions such as in the public sector, or in the medical field, or for a nonprofit organization.

This can be a lot of information for student borrowers to sift through while trying to balance finding a job and managing their finances. This is where student loan servicers should come in. The vast majority of student debt is comprised of federal loans from the U.S. Department of Education. The federal government contracts out to nine servicers including Navient, Great Lakes, and Nelnet. Many private lenders, such as banks and refinance companies, also use servicing companies to manage their student loan portfolio.

Servicers manage borrower's accounts, process payments, and act as a liaison between lender and borrower. Borrowers must work with servicers in order to enroll in alternative repayment plans, obtain deferments, or forbearances, or process loan forgiveness benefits. A borrower typically has no control over who services their loan.

KNOW THESE TERMS

Forbearance: Allows borrowers to temporarily stop making payments or temporarily reduce monthly payment amounts for a specified period. Borrowers ARE responsible for paying the interest that accrues during this time for all loan types.

Deferment: Allows borrowers to temporarily stop making payments or temporarily reduce monthly payment amounts for a specified period. Borrowers are NOT responsible for paying the interest that accrues during this time for most loan types.

Income-Driven Repayment Plan: Sets a borrower's monthly student loan payment at an amount that is intended to be affordable based on income and family size. Four types of income-driven repayment plans are offered. They are:

1) Revised Pay As You Earn Repayment Plan
2) Pay As You Earn Repayment Plan
3) Income-Based Repayment Plan
4) Income-Contingent Repayment Plan

Standard Repayment Plan: Saves borrowers the most money over time because monthly payments are higher than payments made under other plans. Borrowers will pay off their loan in the shortest time and pay the least interest over the life of their loan. If the borrower does not choose a repayment plan, the loan servicer will place the borrower on the Standard Repayment Plan.

*Make sure you are fully informed of all of your student loan options. Consumers may find more information at **https://studentaid.ed.gov/***

California Department of Business Oversight

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