

How to Reduce Student Loan Debt

With the average student loan debt for the Class of 2006 reaching \$21,000 (an 8% increase from 2005), loan management is clearly an important issue for recent grads. Fortunately, there are steps you can take to reduce your student loan debts and manage your overall debt effectively.

Determine Your Debt Load

- What kind of loans do you have? Federal or private? Stafford, PLUS or Perkins? Subsidized or unsubsidized? To learn more about specific types of loans, [click here](#) [link to CreditFYI overview article on student loans].
- How much debt do you have? Across how many lenders? (If your debt is spread out across many lenders, you may want to consider [consolidating it](#).)
- What are your interest rates? What is your repayment schedule?

Consult a Professional

Talk with a financial aid counselor at your school, even if you've already graduated. For federal loans, check out the [Federal Student Aid](#) site. For private loans, contact your lender to speak with an advisor. Note: Be sure to talk to a professional to ensure that you're making the proper tax deductions for your student loan interest.

Assess Repayment Options

Federal-loan repayment options include the following:

- **Standard payment** is the automatically assigned schedule. It typically lasts 5 to 10 years and has the highest monthly payments, which means you'll pay less interest on your loan.
- **Extended payment** is for loans over \$30,000. This schedule lasts longer, up to 25 years. Monthly payments are lower, but you'll pay more interest.
- **Graduated payment** starts with low monthly payments that increase over time. These are useful for borrowers who are just beginning their careers and are likely to have higher incomes in the future.
- **Income-based payments** are divided into two types. FFEL loan payments are based on your expected total monthly gross income. Direct loans payments are based on actual income, but they can't exceed 20% of any earnings above the poverty level.
- **Perkins loan payment** follows a consistent, minimum monthly rate established by the government — currently \$30/month for loans made before October 1, 1992, and \$40/month after that date.

Private loans aren't required to offer these options. While individual lenders may offer different options, situations may vary. Use [CreditFYI's loan calculator](#) to determine the payment plan that best suits your needs.

Pay Your Loan

- Always pay on time. Some lenders reward consistent on-time payments with rate discounts. Missing payments will damage your credit score.
- Pay loans that have the highest interest rates first. Some loans allow you to shift your due date to better coordinate income with payments.
- Consider prepaying your loans. With federal loans, there are no prepayment penalties. Private loans can legally include prepayment penalties, but lenders often waive them for competitive purposes.