



EdFed

Federal Lender Code 834241

America's Top Student Loan Consolidator

175 South Lake Ave, Suite 200, Pasadena, California 91101

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www.Edfed.com

Graduated Repayment Program

In contrast to the standard and extended repayment plans, the graduated repayment plan lets you ease into your student loan payments. This program begins with very low payments, which gradually increase every two years. When you start out on this plan, your payments will be equal to either just the interest on your loan, or half of the payment you'd make on a standard payment plan.

The loan term for a graduated repayment plan lasts anywhere from 12 to 30 years, based on your total borrowing. And there are a few rules you should be aware of concerning graduated repayments. Your monthly payment can never be less than 50 percent of the minimum amount payable under a standard repayment. And because the standard plan carries a \$50 a month minimum repayment, this means you must always pay at least \$25 a month with a graduated repayment option. On top of that, your payment with a graduated repayment plan can't total more than 150 percent of the monthly payment under the standard repayment plan.

The graduated payment plan often works best if you graduated from college but are only making a modest wage and expect your income to keep rising slowly but surely. So let's say your payment started off at \$150 a month. After two years, it could go up 10 percent to \$165 a month. And then two years later, it could go up again to around \$180. Your payments would keep rising, helping you pay off debts faster than the extended repayment option, but slower than the ten-year standard plan.

Take a look at the repayment table for extended and graduated loan repayment plans. It shows the maximum number of years you can take to pay off your student loans, based on the amount of funds you borrowed.

Amount of Debt	Maximum Repayment Period
Less than \$10,000	12 years
\$10,000-\$ 19,999	15 years
\$20,000-\$39,999	20 years
\$40,000-\$59,999	25 years
\$60,000 or more	30 years

Again, even if you take a 20- or 25-year repayment plan, you can pay off any federal student loan early without any penalties. As long as your loan isn't in default, here's how any "extra" payments get applied. The additional payment first gets applied to interest and then toward the principal. I've heard with great dismay of many former students who've made additional payments on their student loans only to be totally discouraged months or years later when they don't see their balances declining. In many cases what's happening is that those extra payments are being improperly applied – or at least they're not being applied in the way the college grads intended.

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Take a look now at the results of paying off a \$20,000 student loan balance in 20 years using the graduated repayment method.

These results assume that you're paying the interest charges on any unsubsidized loans and not capitalizing the interest while in school. If this wasn't the case, your cumulative payments and interest charges would be higher than shown here in this approximation.

Loan Balance	\$20,000
Loan Interest Rate	8.25%
Loan Term	20 years
Months Per Adjustment Period	24
Initial Loan Payment	\$137.50
Final Loan Payment	\$241.30
Cumulative Payments	\$38,632.15

Total Interest Paid	\$18,632.15
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Notice how the graduated repayment plan would result in you paying a total of \$38,632.15, including \$18,632.15 worth of interest. That compares slightly more favorably to the extended repayment option, which also lasts for 20 years, but has you shelling out a cumulative total of \$40,899.15, including total interest charges of \$20,899.15.

If you make more money at any point in your career than you expected, please go ahead and make bigger student loan payments, if the money's really flowing, you'll barely miss an extra \$100 or \$200 every month. But applying those funds wisely can really help to knock down your student loan balances more quickly.

When you send in an additional payment that is one month's worth of your student loan bill or greater, you have to include a note specifically saying that you want the extra funds applied to your principal, to reduce your principal balance outstanding. If you don't, your extra payment gets treated as merely a payment in advance of the due date, and your lender will put off your next payment due date as appropriate. Obviously, this does nothing to knock down your principal faster, thereby slashing your interest charges over time. Don't let this little quirk of the system wreck your best financial efforts. Be smart about your extra payments, and send that letter as required.

Both of these plans, of course, are trumped financially by the standard repayment plan, which—with a 10-year repayment schedule—has monthly payments of \$245.31, cumulative payments of \$29,436.63, and total interest of \$9,436.63.