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Tips to Pay Off Private Student Loans

Ah, private student loans: the bane of any college student's existence. But unfortunately, private student loans are oftentimes a necessary debt. Federal student loans, the lesser of the education-debt evils, are rarely enough to cover the entire cost of college. First-year, independent undergraduate students can only borrow a maximum of \$7,500 per year.¹ This is hardly enough to cover the cost of tuition, fees, books, and living expenses. The average cost of attending college is \$12,796 per year – for a *public* school. The expense more than doubles for private schools, with the cost averaging \$30,367.² That measly \$7,500 shelled out by the government doesn't come close to covering everything, so most students are forced to borrow private education loans.

Private Student Loans Have Become Necessary

Private education loans are not appealing, except that students can borrow larger amounts. But for the most part, private student loans cost more in the long run due to higher interest rates and more fees. When students are taking out private student loans, they often do not bother reading the fine print as they are in a hurry to simply pay their tuition. This is understandable, considering the fact that many freshmen are still young and inexperienced in financial matters. Students sign promissory notes and almost forget about their private student loans until they receive their first bill upon graduation. Every year, we hear countless stories of private student loan repayment nightmares. Monthly payments of \$800 or even \$1,600 for student loans are not uncommon.³

While graduates may have a hard time accepting the reality of private student loans, there are ways to pay down private student loans in a timely manner so as to avoid interest charges. With proper planning, it is possible to pay off private student loans altogether.

Successful Repayment of Private Student Loans

The key to successful repayment is planning. Below are two scenarios of private student loan debt. Each takes a different approach to paying off private student loans, but both involve careful planning to meet the goal.

Scenario 1: Public university graduate with a higher balance of federal student loans than private student loans

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It may sound risky, but with careful planning, it is completely possible to pay off private student loans in a year! This strategy works best in this scenario. If a borrower has a higher balance of federal student loans than private student loans, then it is advisable to opt for a reduced monthly payment on federal student loans, such as interest-only. This frees up cash for bulk payments towards private student loans.

One borrower in particular, Nikki Sanchez, a graduate of the University of Southern California, used this strategy to pay off her private student loan in one year. First, she made the lowest possible payment on her federal loans. Then, she made a bulk payment using some of her tax return and a small bonus from work. Although this only paid off about 30% of the loan, she was able to lower the payment enough so that she could pay the remainder with a credit card.

Now, I know my readers saw red when they read "credit card." But believe me, it works, if you are careful and smart about it. Nikki received a balance transfer check from one of her credit cards. Now, this was no ordinary offer. The rate was a low 2.99% for the life of the balance, and there was no balance transfer fee! The only contingency was that payments had to be made on time each month. So, she paid off her private student loan, which, by the way, was at 10.25%, with her credit card. She then had a low interest rate which saved her hundreds of dollars. By sending in a quarter of her income to her credit card each month, she was able to pay off the loan in one year. Sarah is now working on paying off her federal student loans and doesn't have to worry about private student loans.

Scenario 2: Law school graduate with a higher balance of private student loans than federal student loans

In order to tackle a high private student loan balance, it is advisable to put the federal student loans into a temporary forbearance to focus on paying off the private student loans. While it is true that during a forbearance period interest does accrue while payments are postponed, the interest only accrues on unsubsidized portions, and the principal remains the same on the subsidized portions. Plus, interest rates on federal student loans are typically low, so accrued interest does not severely increase the principal balance. And, interest can be paid quarterly so that it doesn't accrue.

At any rate, once the federal student loan payments are temporarily suspended, all effort, and more importantly money, can be directed towards private student loans. Rather than sending in only the required minimum monthly payment, borrowers are urged to send in more than

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the required monthly payment. How much? As much as possible! Plus, since most people get a couple of paychecks a month, why not send in payments each time you get paid? This will do wonders for paying down the principal balance. Use that end-of-year bonus not for a new state of the art barbecue, but to make a bulk payment towards your private student loans! Got a fat tax refund this year? Write a check to your private student loan lender instead of remodeling your kitchen. With the high interest rates on private student loans, you'll be glad to pay down your principal balance as quickly as possible. Most lenders feature repayment calculators; you can also find one [here](#). Use repayment calculators to determine how much you need to pay each month in order to pay off your loan in your desired amount of years.

Once you pay off your private student loans, you can use the same energy to pay off your federal student loans. Or better yet, have them forgiven.⁴

Strategy and information is the key to successful repayment of private student loans

Another option is [consolidating private education debt](#). Consolidation usually lowers monthly payments and offers lower interest rates. Consolidation is a great option for those who have extremely high balance loans with multiple lenders and various rates. Whatever situation you may be in and whatever strategy you might undertake, it is important to remember that private student loans, and, for that matter, federal student loans are types of debt just like any other in that repayment, or lack thereof, will affect your credit history. So take education debt seriously, and as soon as you graduate, plan your course of action so you won't spend your life repaying your student loans.

For more help managing your student loans, see the following websites:

www.edfed.com/repayment/faq.php

studentaid.ed.gov/students/publications/repaying_loans/index.html

www.studentaid.ed.gov/PORTALSWebApp/students/english/repaying.jsp

www.ed.gov/offices/OSFAP/DirectLoan/calc.html

¹ For the 2007-2008 academic year.

www.studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp

² www.usatoday.com/money/perfi/college/2007-01-12-college-tuition-usat_x.htm

³ www.msnbc.msn.com/id/21085625/

⁴ www.studentaid.ed.gov/PORTALSWebApp/students/english/cancelstaff.jsp