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Tips for College Graduates Making Their First Loan Payments

Make sure you know how much you owe and to whom. Then, look at your payment options.

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November is not only the start of the holiday season, it's also the time when many recent college graduates must start paying down their student loans.

Student borrowers typically get a six-month grace period after graduating from college. For students who earned their diplomas in the spring, that means monthly loan payments start in November or December.

The loan servicer — the company that collects payments and otherwise manages student loans — usually sends a notice a month or so ahead of the first due date. So if you have taken out federal student loans but have not received any communication, it is time to take action.

"Become really familiar with your student debt report," said Natalia Abrams, executive director of Student Debt Crisis, a nonprofit advocacy group.

Go online and check your borrowing history at the National Student Loan Data System. There, you willl find a list of your federal student loans and the amounts as well as their servicers, so you can contact them to make sure you are receiving necessary information. (Loans made by private banks and lenders, rather than the federal government, are not included.)

Unless you choose an alternative, you will automatically be placed in a standard 10-year loan repayment plan. That's usually the cheapest option in the long run, and the one that will get you out of debt the quickest, Ms. Abrams said. "If you can make that payment," she said, "do so."

But if the monthly payment seems too high and you worry you cannot pay it, don't panic, said Lindsay Ahlman, associate director of research and knowledge management at the nonprofit Institute for College Access and Success. There are several options — with slightly different details — for lowering your monthly payment to one that is more affordable, based on your income. Some options even forgive any remaining loan balance after a certain period.

To see what your monthly payments would be under the different programs, you can use the Education Department's repayment estimator tool. Lower payments can give you breathing room until you can afford to pay more. The downside is that it will take longer to pay off the debt, costing you more in interest. And you will need to remember to recertify your income each year to keep the lower payments.

You can sign up for a payment plan online or contact your loan servicer to discuss a switch. It might seem scary, but it's best to stay in touch with your servicer and open all mail — electronic or paper — that relates to your debt. "Ignoring your loans will only make things worse," Ms. Ahlman said.

Some employers offer their workers help with sorting out repayment options through loan navigator tools from start-ups like Summer and Savi. And more employers are even offering direct financial help with student loans as a workplace benefit, although it's not widespread yet. Eight percent of employers offered student debt assistance in 2019, up from 4 percent in 2018, according to a survey by the Society for Human Resource Management. So it's worth asking your employer about possible help.

PwC, the big accounting firm, was a pioneer in offering student loan help. The company recruits heavily on college campuses and began to hear from college students and faculty that student debt was a growing burden. "It started to emerge as a real hot topic, and a source of concern," said Michael Fenlon, PwC's chief people officer.

In 2016, the company began offering a student loan benefit. Employees who sign up receive $1,200 a year for up to six years to help them pay down their student loans. The payments do not replace the student's regular loan payment. Rather, they are made as an extra $100 monthly payment to the student loan servicer, processed by Gradifi, an outside vendor, Mr. Fenlon said. The payments reduce loan principal and interest and shorten the payoff period by up to three years, saving borrowers thousands of dollars, PwC said.

Other companies offering student loan payment help include Aetna and Fidelity Investments; the website Nerdwallet offers a list.

Also, mobile apps have emerged to help borrowers pay down their loans more quickly. For a $1 monthly fee, ChangEd lets users round up everyday purchases to the next dollar and use the extra change to pay down student loans. The app automatically makes a payment to the loan servicer when the "spare" change totals $100.

Another app, Digit, which automatically moves small amounts of money from a user's checking account to a savings account, introduced a new feature this week that offers the option of making extra payments on student loans. Clients link their loan servicer's information to their account, which aggregates small deposits and then makes an extra monthly payment, said Ethan Bloch, Digit's chief executive. Digit's monthly fee is $5, after a free one-month trial.

Here are some questions and answers about student loan repayment:

Is the interest paid on student loans tax deductible?

Yes, depending on your income. You can deduct up to $2,500 in interest on federal and private loans on your federal tax return if you qualify, according to TurboTax. And you do not need to itemize deductions to do so — which is helpful because many recent college graduates probably take the standard deduction.

Should I have loan payments deducted from my checking account automatically?

Having payments debited each month assures you pay on time and can save you a bit of money, said Mark Kantrowitz, publisher of SavingforCollege.com. Federal loan borrowers, he said, can have their interest rate slightly reduced by having payments debited automatically. (Private loans vary as to whether they offer a break on interest rates for automatic deductions.)

Persis Yu, director of the Student Loan Borrower Assistance Project, a program of the National Consumer Law Center, said that borrowers whose income fluctuated should be careful about the monthly debits because they might end up having a payment withdrawn at a bad time. "It depends how stable their finances are," she said. Also, borrowers in income-based repayment programs may get an unwelcome surprise, she said, if they forget to recertify their eligibility as required each year, and their payment shoots up unexpectedly.

Should I consider refinancing my student loans?

Experts generally advise against refinancing federal student loans with private loans because they come with consumer protections that most private loans lack — like income-based repayment options and the right to forbearance, or a temporary halt to the requirement to pay.

Multiple federal loans may be consolidated into a new, single federal loan, which can be more convenient, but may have drawbacks. For instance, it can increase borrowing costs by lengthening the loan term. And it could affect a borrower's eligibility for loan forgiveness programs, according to the Education Department.

Refinancing private loans may make sense, Mr. Kantrowitz said. But it's best for student borrowers to wait a year or two after graduating to do so, he said, because their credit scores will be higher — assuming they have paid on time — and they will qualify for a better interest rate.

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