Transcript

Delaying Student Loan Repayment With Deferment Or Forbearance

If you have student loans and you can't afford to make your monthly payments, you may want to consider delaying your repayment.

The two main ways to delay payment on your student loans are through deferment and forbearance.

With both methods, you are basically putting off making payments on your loan. The difference is that deferment can cost less than forbearance.

First let's look at deferment.

You may have the option to defer your federal loans if you're back in school, in the military, or if you've become unemployed and have a financial hardship. These aren't the only scenarios--you can take a closer look at studentaid.ed.gov to see which situations qualify.

In any case, let's start with a standard ten-year repayment plan, where you've got thirty thousand dollars in loans, with fifteen thousand subsidized and fifteen thousand unsubsidized at a four percent interest rate. On a standard ten-year plan, you would be paying… about three hundred five dollars a month.

If you're not sure what subsidized or unsubsidized loans are, we talk about this in more detail in another video.

But getting back to the chart, let’s say you decide to continue your education and will be studying full-time. Since you won’t be making an income during this time, you decide to defer your loans for the first year.

So during this year, you don’t have to make monthly payments. But your subsidized and unsubsidized loans will behave a bit differently. Interest won’t accrue on your subsidized loans, because the government will pay the interest on these for you. So at the end of this period, you’ll still only owe fifteen thousand dollars, with no interest. However, interest will accrue on the fifteen thousand dollars of unsubsidized loans you have, which might work out to be around six hundred dollars over the course of a year. And that six hundred dollars gets added to the principal on this loan so that extra 600 begins to accrue interest as well.

Now, you do have the option of paying the monthly interest while you’re in school, but for this example, let’s say you don’t. Your year is up and you’ve still got fifteen thousand dollars in subsidized loans… and fifteen thousand six hundred dollars on your unsubsidized loans… leaving you with a balance of thirty thousand six hundred dollars.

Now if you get on a ten-year plan, you’re going to pay a slightly higher amount, than in your original ten-year plan perhaps around three hundred ten dollars a month.

What’s that look like over the next ten years? You may pay seven thousand one hundred eighty dollars in interest over the life of the loan in comparison to the six thousand four hundred fifty dollars on the original non-postponed loan.

Next, let’s look at forbearance. There are two types of forbearance: discretionary and mandatory.

You can apply for a discretionary forbearance from your lender if you have a financial hardship or suffer from an illness, but it’s up to your lender to decide to grant it to you.

If you qualify for a mandatory forbearance, your lender is required to grant it. A common qualification for mandatory forbearance is financial hardship, but other circumstances might qualify you as well.

In forbearance, you don’t have to make any monthly payments, but interest will accrue on both your unsubsidized and subsidized loans.

So let’s look again at our example and see what happens if you need to put your loans in forbearance for one year.

Now, with interest accruing on both your unsubsidized loans and your subsidized loans, you might be paying closer to twelve hundred dollars in interest in this period—six hundred dollars for each of your loans.

But just like deferment, you can choose to pay your interest during forbearance, but again, let’s say you don’t and you let it accrue. When you get out of forbearance, that interest will be added to your principal.

And when you get back on a ten-year plan after a year, your new monthly payment might be about three hundred fifteen dollars—five dollars more than our deferment example… and ten dollars more than your monthly payment if you hadn’t delayed repayment at all.

And over ten years, you might pay seven thousand nine hundred ten dollars in total interest in comparison to six thousand four hundred fifty dollars total interest on the original non-postponed loan.

Of course, both these options are intended to be temporary. You typically can’t be in forbearance for longer than twelve months and the length of time you can keep your loans in deferment can vary depending on your circumstances and the types of loans you have.

So, if you find yourself in a situation where you need to postpone repayment- deferment or forbearance can be decent options, but like everything else, there are trade offs, and it’s good to keep in mind that delaying payment can come at an additional cost.