Northwestern Mutual®

Your Guide to Paying Off Student Debt

If you have student loans, the prospect of paying all that debt off may seem daunting. But these steps can help you get it under control.

You put in the work, earned your degree and now – if you're like most college grads – you're facing the stark reality of paying down your student loan debt. Nearly two out of three college grads leave school with student loans[1] so you're certainly not alone. Still, you might be wondering whether taking on all that debt was worth it.

> Nearly two out of three college grads leave school with student loans.

Take heart: By some estimates, those who earn a bachelor's degree earn $1 million more over a lifetime[2] than someone with only a high school diploma. So in the long run, you've made an investment on your future. In the short term, however, it's fair to feel like your debt is a burden. But there are ways to make repayment feel less onerous: You may be able to switch to an alternate repayment plan, defer your payments, consolidate or refinance your loans, or even qualify to have your balances forgiven. By exploring your options, you could even free up money for other financial priorities. Here are three things you should know to start taking control of your student loans.

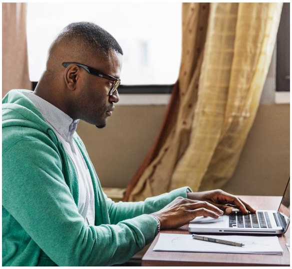
1

KNOW YOUR LOAN DETAILS

Take a moment to figure out the details of your student loan, because it'll help you understand what options are available to you. You've either got a federal loan, a private loan or a combination of the two.

WHAT TYPE OF LOAN DO YOU HAVE?

○ Federal
○ Private
○ Combination of Both



Federal loans, also called public loans, are loans you borrow from the federal government, and they represent the vast majority of student loan debt. With federal loans, you pay a fixed interest rate, you can typically qualify for them without a credit check and you don't have to make payments on them while you're in school.

Federal loans can also be subsidized or unsubsidized. With a subsidized loan, the government pays the interest on your loan while you're in school. With unsubsidized loans, the interest builds up while you're in school, and you'll eventually have to pay that back.

Private student loans, on the other hand, come from a lender – think bank, credit union, state agency or a school – and for the most part, they're not as flexible as a federal loan. Private lenders might require you to have established credit, begin making payments immediately (even if you're still in school), and may offer either fixed or variable interest rates. Private lenders also typically require a cosigner who will take responsibility for your balance if you're unable to make payments.

Once you know what type of loan you're dealing with, make sure you're aware of the terms of your loan: the amount you pay each month, the length of your loan term (e.g., 10 years, 20 years, etc.) and whether your loan's interest rates are fixed or variable.

If you're not sure about the terms of your federal loan, you can find out the details through the National Student Loan Data System, the U.S. Department of Education's central database for student aid.

FEDERAL LOANS	PRIVATE LOANS
No payments while in school	May have to begin payments even while in school
Fixed interest rate	Fixed or variable interest rate
Government may offer subsidized loans based on financial need	Subsidized loans not available
Interest paid could be tax-deductible*	If loan is not used solely to pay for qualified higher-education expenses, interest paid may not be tax-deductible*
No credit check for most loans	May require established credit
Multiple repayment and consolidation options	Repayment options may be limited
Loan forgiveness, cancellation or discharge for borrowers who qualify	Limited or no options for forgiveness, cancellation or discharge

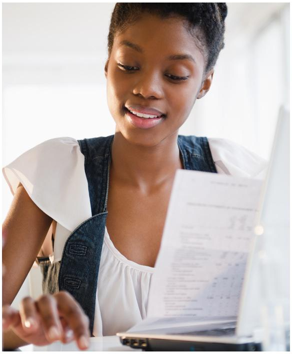
*Consult your tax advisor.

KNOW YOUR PAYMENT OPTIONS

Once you know what type(s) of loans you have, how much you owe and the current terms, you can begin exploring your options for managing your debt.

Private loans

If you have private loans, you may be able to consolidate them, adjust your interest rate or change the terms to better suit your needs. Check directly with your lenders to see what options they offer.



Federal loans

For federal student loans, you may be able to change or reduce the amount you pay each month, temporarily stop making payments or apply loan forgiveness. The options available to you may depend, in part, on the type of federal loan you have (Direct Stafford Loan, Federal Family Education Loan (FFEL) or Perkins Loan).
You generally have six potential options. Here's a rundown of what they are and how they differ.

1. CHANGING YOUR REPAYMENT PLAN

- **A standard repayment plan** is the default payment plan, which puts you on a schedule to repay your loans within 10 years, with fixed monthly payments of at least $50 per month. The interest you pay is based on the type of federal loan you have. The benefit of this type of plan is that you pay your loans off quickly and pay less interest over time than you would with other plans, but it requires higher monthly payments right off the bat.

- **A graduated repayment plan** starts low and increases every two years over the 10-year term of the loan. It's a good option if you need some financial breathing room coming out of school but know your income will increase over time. Under this plan, the largest payment will never be more than three times the size of the smallest payment. The drawback is that you pay more interest than you would with the standard plan.

- **Extended repayment plans** are for people who want low monthly payments and therefore are willing to stretch their loans out over more than 10 years. To qualify, you must have borrowed more than $30,000 from either the Direct Loan or FFEL programs, and your loans need to have been disbursed after October 7, 1998. If those criteria are met, you may extend the term of your loan up to a total of 25 years. Again, this is a scenario that requires you to pay more interest over time

- **Income-driven plans** can be a good option if your loan payment is high compared to your income. Under the plan, loan payments are calculated as a percentage of your discretionary income, which is based on a formula that compares your income to the poverty guidelines in your state and for your family size. There are different types of income-driven plans available, but many result in payments that land at about 10 percent of your discretionary income. Depending on the plan, if you make payments for 20 to 25 years, whatever balance remains will be forgiven but that forgiven amount will be considered taxable income. Income-driven plans also require you to report your income and household size annually, and if you're married and file taxes jointly, your spouse's income and loan debt are included in any calculations.

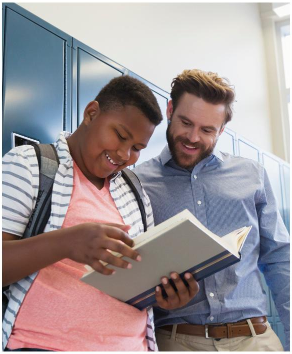
HERE'S A TIP

You can prepay any federal student loans or change repayment plans for free.

2. LOAN FORGIVENESS

There are two types of loan forgiveness programs for federal student loan borrowers:

Public Service Loan Forgiveness is available to those who work for a qualifying entity such as a government organization (federal, state, local or tribal) or a 501(c)(3) nonprofit organization. With this program, once you make payments for 10 years (while employed by a qualifying organization), the balance of your loans may be forgiven tax-free. The 10 years do not have to run concurrently; you can work for a qualifying organization for a few years, leave the program and then return at a future date. The key is to have a total of 10 years of service.



Teacher Loan Forgiveness is available if you meet certain criteria. You must be a new borrower, teach full time and work in a low-income elementary or secondary school or educational service agency for five consecutive years.

Like most plans, there are pros and cons to forgiveness programs. Read the fine print for each before diving in, and make sure that you receive annual confirmation from the Department of Education that your loan payments and employer qualify for PSLF — you don't want to be unpleasantly surprised to learn a decade down the line that you didn't qualify. Also, keep in mind that if you move between forgiveness-qualified and nonqualified jobs, it'll take longer than 10 years to get your loans forgiven.

3. FEDERAL LOAN CONSOLIDATION

It's not unusual to graduate with several different federal loans at different interest rates — which is why the idea of consolidating them into a single loan can be enticing. You're basically folding your public loans into one loan and making a single payment rather than multiple payments; your new fixed rate is a weighted average of the interest rates on all the loans being consolidated.

Consolidation can help make paying down your loans a lot more convenient, but it is possible that your overall rate could increase. Also, depending on what types of loans you're consolidating, you may either lose some flexibility in loan repayment or become eligible for new options. So make sure you know what benefits might be affected if you go this route.

4. PRIVATE LOAN REFINANCING

When you refinance, you're working with a bank, credit union or other type of private lender to take out a new loan that pays off your old loans. You can refinance both public and private loans, and lenders will typically consider factors like your credit history, demonstrated ability to pay your bills or your earning potential to determine what your loan terms will be. You may also need a co-signer who would be on the hook for the loan payments if you can't make them.

If you refinance public loans, you're privatizing them — which means you'll likely miss out on any of the repayment flexibility or forgiveness programs that the federal government offers. So weigh the pros and cons of giving up these benefits before you decide to refinance.

5. DEFERMENT

If you've started to pay back your public loans but find yourself in a financial crunch, you may be able to temporarily postpone making payments through a deferment. If you have subsidized loans, the federal government typically pays the interest on your loan during the deferment period. If you have unsubsidized loans, you'll have to either keep paying the interest during the deferment period or it will be capitalized — meaning the accrued interest will be added to your principal balance.

There are a number of situations that may make you eligible for deferment — economic hardship, inability to find full-time work or active military duty — but keep in mind your payments might increase after deferral.

> Whichever choice you make to tackle your loans, be sure to weigh the pros and cons of each option.

6. FORBEARANCE

If you can't make your scheduled federal loan payments and don't qualify for deferment, forbearance may be another option. This allows you to stop making payments or reduce your monthly payments for up to a year at a time — and you may request forbearance up to three times, for a maximum of three years total. There are two types: Discretionary or general forbearance, in which your lender decides whether to grant the forbearance; and mandatory, which requires your lender to grant it under special circumstances like medical residency or being activated by the National Guard. One big difference between forbearance and deferment is that under forbearance, you'll always be responsible for paying your loan interest.

3

KNOW HOW TO PROTECT YOURSELF AND OTHERS FROM DEBT

While it may sound morose, what would happen if you were to become disabled or, worse, if you died? Who would be on the hook for your loan? If you have federal loans, your balances may be canceled if you pass away before you've repaid them. But for private loans, the cosigner is responsible for paying it off, and may even be required to pay it all at once.

Disability income insurance, which helps replace a portion of your income if you become ill or injured, can help you continue to make payments even if you're unable to work. Meanwhile, life insurance can help your loved ones pay off your balances under tough circumstances.

If you feel as if your student loans are weighing heavily on you, talk to a financial professional about your options for repayment and income protection. He or she can also help you see how your student loans are impacting your overall financial picture and help ensure that college debt doesn't knock your other dreams and goals off track.

WHAT'S NEXT?

Managing your student loan debt is important. It's also one aspect of your entire financial future. Talk to your financial professional about the best ways to pay down your student loans while still keeping the rest of your financial goals on track.

---

[1] "Student Debt and the Class of 2017." The Institute for College Access and Success, September 2018.

[2] Carnevale, Anthony P, Rose, Stephen J. and Ban Cheah. "The College Payoff: Education, Occupations, Lifetime Earnings. Georgetown University Center for Occupation and the Workforce, 2014.

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company (NM), Milwaukee, WI (life and disability insurance, annuities, and life insurance with long-term care benefits) and its subsidiaries.