FOR SERVICEMEMBERS

Tackling student loan debt

Protections for both federal and private student loans

Reduce your interest rate to 6 percent

Under the Servicemembers Civil Relief Act (SCRA), servicemembers can reduce their interest rate to 6 percent on all pre-service obligations, including student loans, while they are on active duty. The lower interest rate can be requested up to 180 days after leaving service, and the lower interest rate will be applied retroactively for the entire period of your active-duty military service.

Here are two things you should know about reducing interest rates:

1. **Federal student loan reductions are automatic:** In June 2012, the Department of Education made the SCRA interest rate reduction automatic for federal student loans. Your federal loan servicer should check to see if you are eligible for the SCRA benefit, and make the reduction automatically.

> **Tip:** Contact your servicer (the company that sends you a bill each month) to check out your current interest rate and ensure you're properly receiving the SCRA reduction.

2. **Private student loan reductions must be requested:** The SCRA interest rate reduction is not automatic for private student loans, so make sure you do your part and properly request it. To do this, contact your student loan servicer to request your reduction – be sure to provide them with a copy of your military orders calling you to active duty.

> **Tip:** Make sure you send the right orders. Your orders should state the date you started active duty. That way, your servicer will know the exact date on which to start charging the lower interest rate.

Protections for federal student loans

Zero percent interest for service in an area of hostile fire

If you served in an area of hostilities and received special pay, your federal student Direct Loans qualify for a 0 percent interest rate during that deployment if they were made on or after October 1, 2008. The benefit can be applied retroactively, so it's not too late to contact your servicer after deployment to find out about what documentation you need to provide.

> **Tip:** You can receive the 0 percent interest rate for up to 60 months, and it can be applied retroactively even after you've left military service.

Perkins loan forgiveness

Borrowers with a Federal Perkins Loan who serve in an area of hostilities for more than 12 months straight may be eligible to have their loan balance reduced for each qualifying year of service.

Tip: In order to qualify, you must serve 12 consecutive months in an area of hostilities, but if your combat service has already passed, you can still apply for the benefit retroactively.

Military deferment

For federal student loans, you can defer payment during certain periods of military service. A deferment just means you're postponing payment. Depending on the type of loan you have, you may have to pay back unpaid interest at the end of the deferment, or it will be added to your outstanding loan balance. For subsidized federal student loans, the Department of Education will pay the interest for you when you use a military deferment.

Tip: Remember that interest may continue to accrue during the time of deferment, unless you have a subsidized loan. But you can choose to pay all or part of the interest as it accrues, even if you are in deferment. If you don't and interest continues to accrue, you'll end up owing more after the deferment ends.

The deferment process depends on your military status and where you're serving:

- **National Guard and Reservists:** Can request deferment when you are called to active duty during a time of war, other military operation, or during a national emergency.
- **Active duty:** Can request deferment if you are serving on active duty during a time of war, other military operation, or during a national emergency. Remember, for those serving on active duty, you must also be "serving at a duty station at which they are not normally assigned." For example, a servicemember serving at Fort Campbell, KY who is then deployed to Afghanistan or Iraq would be stationed away from their normal duty station and could request a deferment. Other scenarios such as training periods or periodic moves may not be as clear, so check with your student loan servicer.

Income-Driven Repayment (IDR) plans

For federal Direct Loans and older federal loans made by private lenders, your monthly payments can be reduced based on your income and family size. Which repayment plan you may be eligible for usually depends on when you took out your student loan. Not only do these plans potentially help to reduce your required monthly payment, they are also "qualifying plans" that may help you achieve eventual loan forgiveness under the Public Service Loan Forgiveness Program (PSLF) discussed below.

Tip: To get started with these plans, enroll online at studentloans.gov/myDirectLoan/index.action or contact your student loan servicer to see if your loans are eligible for these repayment plans.

Here are federal loan payment plans you may qualify for:

- **Income-Based Repayment (IBR):** IBR sets a low monthly payment based on your income and family size. If you have older loans, your loan payment will be capped at 15 percent of your discretionary income.
- **Pay As You Earn (PAYE):** If you are a recent grad, Pay As You Earn (PAYE) (with more info here: consumerfinance.gov/askcfpb/1555/what-pay-you-earn-paye-how-do-i-know-if-i-qualify.html) is a newer repayment plan that is likely available for your federal student loans. The plan caps your monthly payment at 10 percent of your

discretionary income. If you think you might be eligible, learn more about who qualifies for PAYE here: consumerfinance.gov/askcfpb/1555/what-pay-you-earn-paye-how-do-i-know-if-i-qualify.html.

- **Revised Pay As You Earn (REPAYE):** If you are not a recent grad and don't think your loans are new enough for Pay As You Earn, you should look into REPAYE, which also caps your payments at 10 percent of discretionary income. You can get a lower payment if your federal student loan debt is high compared to your income. You can learn more about who is eligible and the differences between these plans here: blog.ed.gov/2015/12/your-federal-student-loans-just-got-easier-to-repaye/.

Tip: Get started by enrolling online in these plans here: studentloans.gov/myDirectLoan/index.action. Once you sign in, select "Income-Driven Repayment Plan Request." There is no charge to enroll in these plans. You can also contact your servicer about enrolling. They will likely ask for proof of your income, such as a tax return or pay stub, to determine your new payment.

Remember: When considering an IDR plan, keep in mind that if you ultimately don't qualify for PSLF, paying the reduced monthly payment due under an IDR plan could cost more over the life of the loan when compared to repaying under the standard repayment plan. Talk to an Education Services Officer or a Personal Financial Manager to discuss your options.

HEROES Act waiver

The Department of Education waives many of the documentation requirements for the programs it administers for servicemembers during certain periods of military service. For example, while IDR plans require annual recertification of your income and family size, servicemembers can sometimes have this requirement waived. The HEROES Act waiver allows your servicer to simply recertify your eligibility during certain periods of military service. So if you are on a payment plan based on your income, and military service prevents you from providing updated information on your family size and income, you can request to have your monthly payment amount maintained. Contact your servicer to learn more.

Public Service Loan Forgiveness (PSLF)

Active duty servicemembers (and veterans) meeting certain requirements may have the balance of their federal student loans forgiven after working in public service for ten years.

Tip: Under current federal rules, any amount forgiven under the PSLF program is not considered taxable income.

To be eligible, you need three things:

1. **A qualifying loan.** Only federal Direct Loans and Direct Consolidation Loans are qualifying loans for PSLF. If you don't have a Direct Loan, you may be able to take out a new Direct Consolidation Loan.

Tip: While consolidating may help you qualify for PSLF, remember that consolidating while you are on active duty may mean you lose the ability to request an interest rate reduction under the SCRA, because your loan will no longer be considered a pre-service loan.

2. **A qualifying payment plan.** To achieve forgiveness under PSLF, you need to make 120 qualifying monthly payments. Only payments

made under certain plans count as qualifying payment plans. IBR, PAYE, and REPAYE are three of the best qualifying repayment plans since they also can reduce your monthly payments.

Tip: To be counted as a qualifying payment, each of the 120 payments must be made on time – that is, within two weeks of the payment due date. But those 120 qualifying payments do not have to be made consecutively.

3. **A qualified public service employer.** The 120 payments you make must be made while working for a qualified public service employer. The good news is, military service under the Department of Defense (or Homeland Security for Coast Guard members) counts as qualifying employment. And even if you are no longer in the service, so does employment in other public interest areas such as teaching or public law enforcement.

Tip: Contact your student loan servicer to get the Employment Certification for PSLF form. You'll need someone in your chain of command to complete and sign section three of the form.

For private student loans

Most protections for federal student loans do not apply to private student loans. Some private lenders will provide certain benefits under the terms of the promissory note or under specific programs, but they are not required to do so. For example, federal law does not require lenders to grant a military deferment for private student loans; however, some private student lenders offer this benefit or other specific programs. If offered, these benefits should be spelled out in the promissory note.

Tip: To better understand the terms of your private student loan, take a look at your promissory note and contact your student loan lender or servicer for more information.

Learn more about repaying student debt

The CFPB has an online tool that provides information and advice for optimizing how you pay off your student loans based on some basic information about your situation. While we can't give you advice for your exact situation, we hope it can point you in the right direction and help you learn about some of your options. Access the tool at consumerfinance.gov/paying-for-college/repay-student-debt/.

About the CFPB

The CFPB is a 21st century agency that helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by empowering consumers to take more control over their economic lives.

Learn more at consumerfinance.gov