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8 Pitfalls to Avoid When Paying Back Student Loans

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1. Paying off the lowest-interest loans first

- Presumably, you're paying back all your student loans. But sometimes people give priority to certain loans, often because they're the smallest total amount. While it's appealing to knock out a smaller loan first, it's a bad idea if that loan has the lowest interest rate.

- Many financial advisers and student loan nonprofits, such as the Project on Student Debt, recommend that graduates pay off the loans with the highest interest rates first. While it might seem tempting to tackle the smallest loans, keep in mind that, because you pay more interest on the highest-rate loan, paying it off quickest leads to paying less overall. And who doesn't want that?

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2. Paying the bare minimum

- There will probably be a time in any borrower's life when they can't afford to pay above the minimum on their loans. And that's OK, as long as you stick with your payments. However, many borrowers can pay at least a little above the bare minimum, but they don't. It might seem nice to have extra cash now, but this means taking longer to pay off the loans and accruing more interest to the point that you may pay several thousand dollars more over the course of repayment.

- Think about what else you can do with that money — not right now, but in the future.

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3. Needlessly delaying repayment

- With federal student loans, you can often put off repayment. According to the Department of Education's Federal Student Aid office, you can defer loans (where the "principal and interest of your loan is temporarily delayed") or put them in forbearance (where you delay repayment but interest still accrues). This is a great safety net to have — repayment flexibility is one of the perks of federal loans — but don't needlessly do either.

- While deferring doesn't increase your debt, it also postpones the inevitable and should only be done if necessary. With forbearance, the longer you put off paying your loan, the more you owe, because interest keeps piling up. Only take these options if it's necessary, but face your debt sooner if you can.

Reference: http://www.schools.com/articles/student-loan-pitfalls-to-avoid

4. Living in luxury

- Yes, the chances of a recent college graduate buying a big house and driving around a Ferrari are slim. But if you're living more comfortably than you need to, sitting on a nice salary and nice things while making the minimum monthly payment on your loans, then you really should pay off those student loans as quickly as possible. It's tempting to enjoy the monetary benefits that come with a good job, but not focusing on your loans is costing you money in the long run.

- Even cutting out some luxury in your life temporarily, like going out to dinner or buying the newest technology, to pay extra money toward student loans is wise. Get these payments over with, and then live the high life.

5. Not considering consolidation

- Plenty of people don't even consider consolidating loans, which is a mistake, because the benefits can be huge. It might not be the right choice for everyone, but it's always worth looking into.

- According to the Department of Education's Borrower Services, consolidating your loans lets you have one lender, one monthly payment and, potentially, a lower interest rate or an overall reduced monthly payment. But you also face one larger payment versus a few smaller ones, which could overwhelm some borrowers, who get discouraged by seeing a large bill.

- The point is, you should at least look into combining your loans and decide for yourself. Consolidation is usually a better option for borrowers with loans from different sources, such as those who have both federal and private loans.

6. Skipping payments

- You may think you can get away with skipping payments. But there are consequences.

- With federal student loans, the first day after you miss a payment, your loan becomes delinquent, which hurts your credit score. And if you keep skipping payments, your loan is in default after 270 days. This makes the whole balance immediately due, excludes you from repayment plans and taking out other federal student aid, hurts your credit, and much more.

- If you can't make your payment this month, contact your loan servicer immediately — don't just skip payments. Even once is a bad idea.

7. Taking on other debt to pay them back

- If you're borrowing money from your parents, using plastic or even taking out other loans to pay back your student loans, you're doing it all wrong.

- First off, there are several loan repayment options if you took out federal student aid. These include:
    - Standard Repayment Plan, which has a fixed payment each month and takes up to 10 years
    - Graduated Repayment Plan, where payments start off lower and increase over time
    - Extended Repayment Plan, where you have up to 25 years to pay off the loan
    - Income-Driven Repayment, which includes three separate plans (Income-Based Repayment, Pay
- As Your Earn and Income-Contingent Repayment) and caps monthly payments at 10 or 15 percent of your discretionary income

Reference: http://www.schools.com/articles/student-loan-pitfalls-to-avoid

- There are even loan forgiveness programs available through the federal government for some borrowers who are teachers or work in public service. The point is, if you have to rack up more debt just to pay your student loan, you've probably not considered some of these plans, especially the ones that offer flexibility.

- Also, chances are you're making your debt situation much worse by paying your student loans off with something like a credit card, which often carries a much higher interest rate. If you can't afford to pay back your student loans, there are so many better options, from forbearance to very-low monthly payments. You can make this work.

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8. Moving to a tough state for student loan borrowers — or not staying in a good one

- You can't always help where you live. But if have you student loan payments to make and a choice in the matter, consider which states make it easiest for borrowers to set themselves up for success.

- According to the Schools.com list of the best states to pay back student loans, several Western states — including Utah, Nevada, Washington and Colorado — statistically have a high income and a relatively low debt-to-income ratio. As such, these can be appealing places for graduates with debt to live, especially when compared with other parts of the U.S., where residents are often plagued with lower incomes, higher debt and higher student loan default rates.

- The good news is, these pitfalls are all avoidable once you know about them. Now you do. Be smart.

Sources:

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