

## *Financially Speaking*

### **What to do now that the Student Loan Payment Pause has Ended**

Lots of things happened as a result of the COVID-19 pandemic and many aspects of what we consider “normal” may well be changed forever. A prime example of that would be the work from home option. Once only considered in rare circumstances it is now embraced by many businesses and even incorporated as a part-time option by companies that would prefer to have their employees in the office.

It wasn't just businesses that made big changes to try and deal with the unprecedented situation. Government too stepped into action quickly, instituting a number of measures that directly impacted most citizens in some way. While many of those measures were either one-time actions or quite short term in nature, others have extended for some time. One of those programs that has been extended multiple times, the pause on student loan payments, just came to an end and it is important that everyone impacted understands what they should do as a result.

Early on during the COVID-19 pandemic the US government instituted a pause on the requirement for individuals with federal student loans to make their normally required payments. At the same time, the interest rate on the loans was temporarily placed at 0% - meaning that essentially the loan balances were frozen, not accruing any additional interest while also not requiring payments. That program was extended a few times but has now ended, with interest resuming September 1<sup>st</sup> and payments due starting October 1<sup>st</sup>.

While the end of the pause has been widely in the news and loan servicing companies have been sending out notices, I suspect that there are a lot of impacted people who still may not be aware of the change or may not realize how it impacts them. Borrowers may have moved and not updated their address with the loan servicer and several loan providers consolidated over the last couple of years, so borrowers may not even know where their loan is currently held.

If you have a federal student loan(s) and you have not been in contact with your loan servicing company about your repayment plan I would urge you to reach out to them now. If you find that your loan has been moved and you have trouble finding it you can find that information by logging into the Federal Student Aid website, [studentaid.gov](https://studentaid.gov).

To help borrowers adjust to the restart of payments the Department of Education has instituted a one-year “on ramp” period during which missed, partial or late payments will not lead to negative credit reporting, default or loans being sent to collection agencies. That does not, however, mean that there is another 12-month extension of the pause on repayment. Interest rates have now returned to what they were prior to the pandemic and that interest has started accruing again. That means that every month you don't make a payment could result in your loan balance getting larger - leading to bigger required payments down the road.

Let's take a look at a simplified example of what that could mean, assuming that interest accrues monthly.

Say that you have a \$40,000 federal student loan with an annual interest rate of 6%, or 0.5% per month. In September the interest on the loan would amount to \$200 ( $40,000 \times .5\%$ ). If you don't make a payment in October the \$200 would be added to the loan balance and the interest for the next month would be \$201 ( $40,200 \times .5\%$ ). Each month that a

payment is not made would result in the loan balance and the amount of interest charged growing. In this example, if you were to not make any payment for the entire 12-month period the loan balance would grow to \$42,467.

In addition, any missed payments over the next 12 months won't count toward any of the current loan forgiveness programs, including those for income-driven repayment plans or the Public Service Loan Forgiveness program. If you are not familiar with these programs I would suggest that you review information about them on the Federal Student Aid website or ask your loan provider about them.

The Education Department has also issued new guidelines for how income-driven payments are calculated, reducing the amount of the required payments for many borrowers and potentially even bringing them down to \$0 for certain low-income individuals. Called the Saving on a Valuable Education plan (SAVE) this plan also includes provisions that can waive the accrual of excess interest if the required monthly payments are less than the amount of interest that would otherwise be charged.

The bottom line is that now is the time to contact federal student loan providers and work with them to determine the payment plan that makes the most sense for you. A lot has changed over the last few years but as life gradually returns to normal the repayment of these loans is too.

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