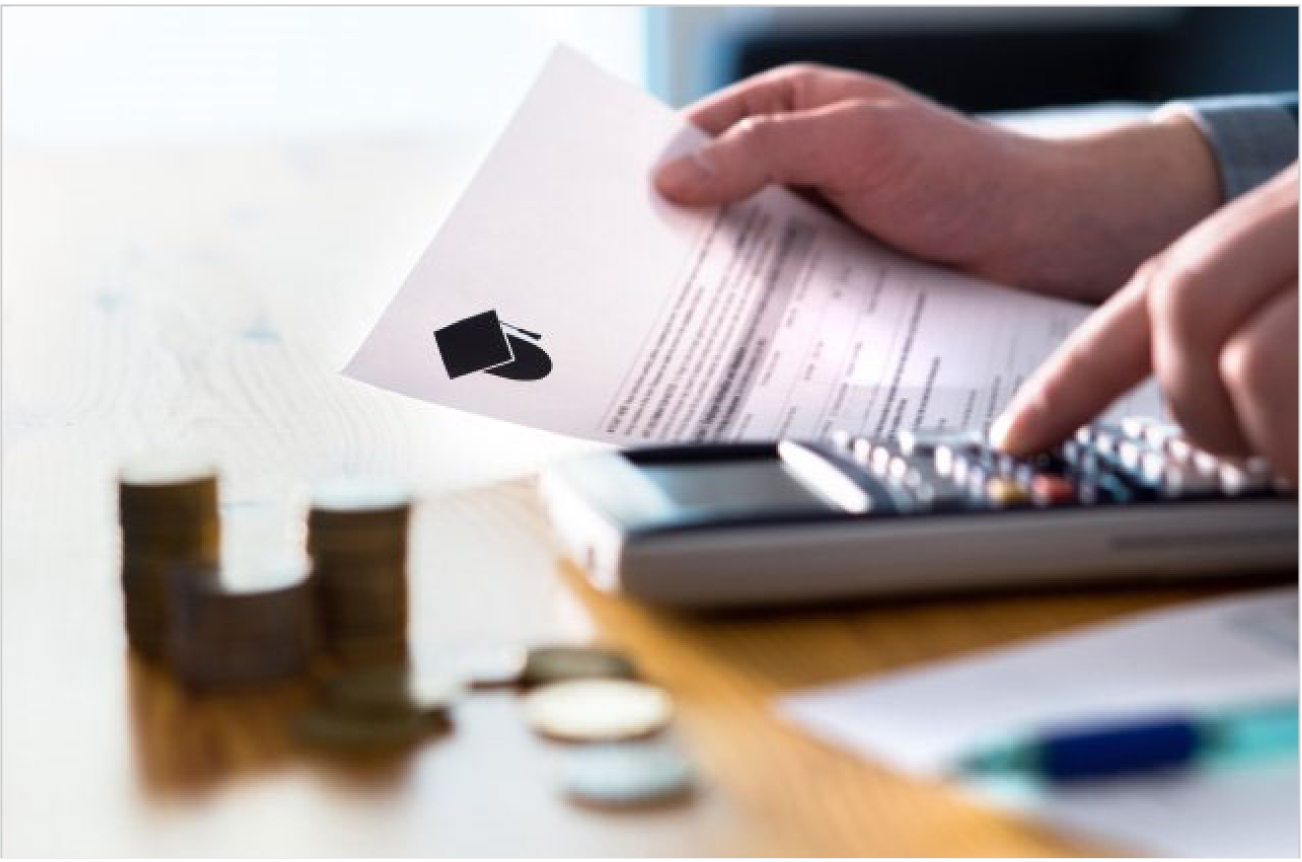
EDUCATION

Home / Education / Student Loan Ranger

Reasons to Pay Student Loan Interest During School

Paying the interest on your student loans while you're still in school has financial and other benefits.

By **Meghan Lustig**, Contributor April 15, 2020



Making even small payments on your student loans while you are in school can save you a lot of money over time. (GETTY IMAGES)

DEPENDING ON THE TYPE of student loan you have, you may or may not be required to make payments while you are still in college. Deferring payments on your student loans until after you graduate may make financial sense in the short term. However, if you can afford it, there are some worthwhile benefits of making payments on your student loans while you're still in school.

Most student loan borrowers today have federal direct loans. These loans are deferred for borrowers with in-school status, which means that you are not required to repay them while enrolled in school at least half time or for the first six months after graduation or withdrawal.

For other types of student loans, including federal PLUS loans and private student loans, borrowers may be required to make in-school payments. Check the terms of your loan to be sure of your obligations.

[**READ:** What Every Borrower Should Know About Student Loan Interest Rates.]

Whether or not it's required, paying any interest that accrues on your student loans while you're in school can have at least three benefits:

- Saving money over time.
- Establishing good habits.
- Taking control of your financial health.

Saving Money Over Time

Making even small payments on your student loans while you are in school can save you a lot of money over time. Interest may seem small now, but it can add up quickly to exponentially increase the total amount you will pay.

When you borrow student loans, you are responsible for paying back the full amount that you borrowed plus any interest that accrues on your loan. On most student loans, interest starts to accrue from the time the loans are disbursed. Even if you are not required to repay your loans while you are in school, interest will still accrue.

[**READ:** How Interest Increases Your Student Loan Balance.]

When your loan goes into repayment, any unpaid interest will capitalize, meaning that it becomes part of the principal balance of your loan, which increases the loan. Interest is then calculated using this new, higher loan balance, which is called negative amortization.

You can avoid this and save money by making interest-only payments while you're still in school. Payments can be small each month, but helpful in the long run. For example, if you took out a $5,000 student loan at 4.53% interest for your freshman year, interest-only payments would be only about $18.88 a month during four years in college and the following six-month grace period prior to loan repayment beginning.

For federal loans, check StudentAid.gov to find your student loan servicer and to look up the amount of interest that accrues on your loans each month.

[**READ:** When to Contact Your Student Loan Servicer.]

You can then check the Cost of Interest Capitalization Calculator to see how much making even these small payments could save you over time.

Note that there is one exception to this rule. If you have federal subsidized direct loans, which are available to undergraduate students with financial need, the federal government will pay any interest that accrues on these loans for you while you are still in school. If you have this type of loan, you can still opt to make payments on the principal while you are in school, but you don't need to worry about the interest until your loans go into repayment.

Establishing Good Habits

For many borrowers, the first month that student loans go into repayment can be a big financial shock. It's easy to forget about your loans completely when they are in deferment because they are out of sight and out of mind.

Making small interest-only payments while in college can help you form the good habits that you need to prepare and adjust when your student loans enter repayment. You'll never forget about your loans, because they will already be part of your monthly budget, and you'll be used to setting aside a portion of your income for this purpose each month.

Good habits can also help you reduce stress. You'll be more organized and can feel confident that you will receive and pay your first bill on time. You will know that your contact information is up to date, you'll be familiar with your student loan servicers and you'll know exactly where to send that first payment.

Laying this groundwork now will help you keep it up later when you're in repayment.

Taking Control of Your Financial Health

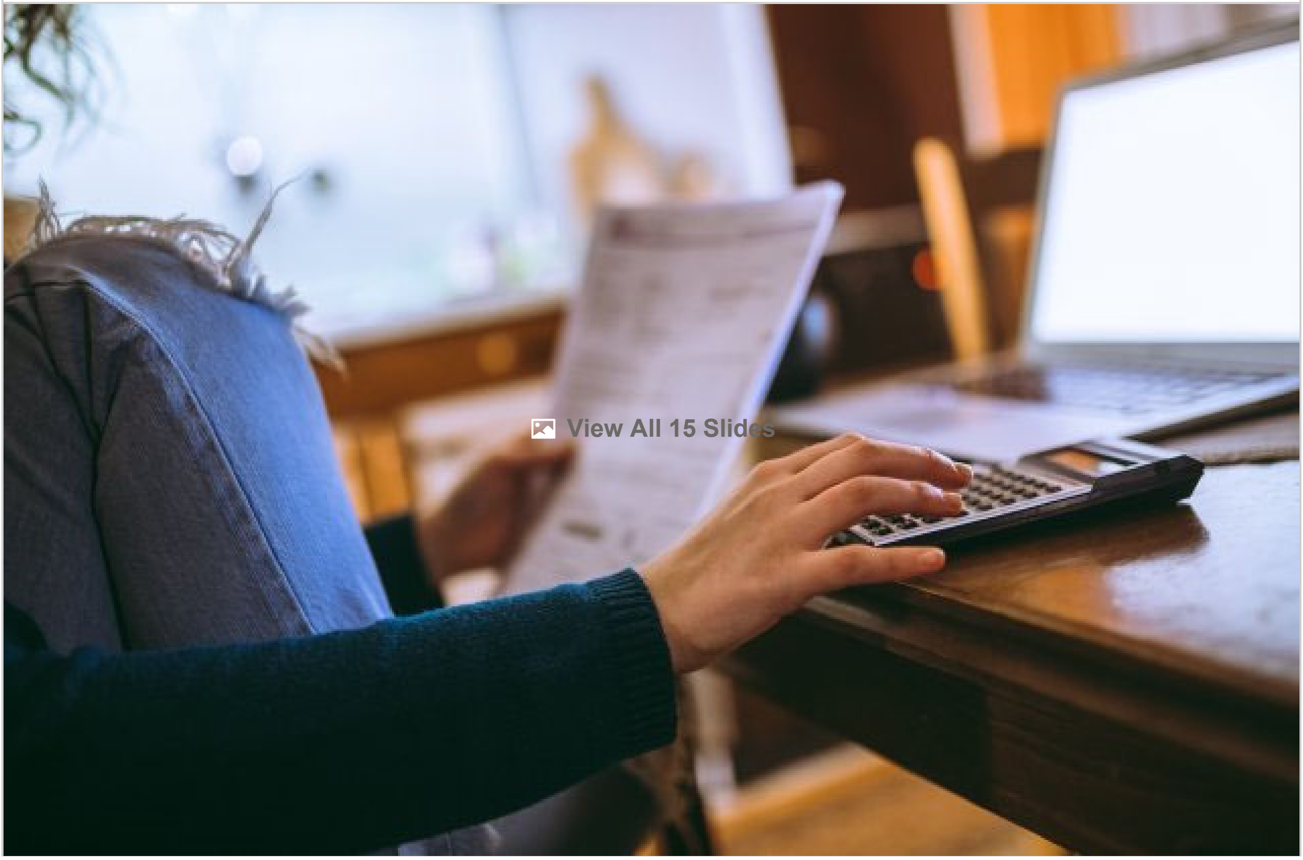
Your student loan is just once piece of your overall financial health. Establishing good credit and maintaining financially healthy practices are just as important before and during college as after. Paying interest on your student loans while you're still in school can give you that extra bit of awareness needed to get a jump-start on building and maintaining good credit.

[**READ:** Why Your Creditworthiness May Matter for Student Borrowing.]

Borrowers who have a record of on-time payments usually have a higher credit score, which indicates to lenders that the borrower has good debt-management practices and is at a lower risk for default. You can get ahead now by checking your credit score and adapting your financial health accordingly.

You should also consider making a budget now that you can adjust as your income and expenses change. This will help you become more aware of your finances and your overall financial health. If your student loan payment is already part of this budget because you're making interest payments – even better!

11 Steps to Minimize Student Loan Debt



Meghan Lustig, Contributor

Meghan Lustig is the manager of government affairs and member services for Education Finance ... **READ MORE »**

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