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Income contingent loan

Most federal student borrowers haven't been required to make a payment in nearly a year now. During this interest-free pause, some borrowers have taken advantage by skipping payments and redirecting that money elsewhere. Others continue to pay, hitting their principal debt. Whichever camp you fit into, this break might be a good time to assess typical payments. How much of your money should you actually be allocating to student loans each month in an ideal budget? The US Department of Education recommends students not borrow more than 8% of their projected gross income or 20% of their "discretionary income." The problem is many students borrow without understanding prospective salaries for their career path, nor do they understand the difference between discretionary, take-home, or gross income. Sometimes they don't know until they graduate how much debt they've accrued. Whether you're a student trying to figure out how much you can afford to borrow, or you graduated years ago and are simply trying to get a handle on your loans, some basic budgeting fundamentals can help you balance student debt with other financial needs and goals. Here's what financial planners say you should know about budgeting for student loan payments. Determine your budget Start with your total monthly income. After subtracting deductions including federal and state taxes, Social Security and Medicare taxes, and pre-tax contributions to employer-based healthcare and retirement funds, you have your net income, says Patti Hughes, owner of Lake Life Wealth Advisory Group in Chicago. That's the money that hits your bank account, and that's what you've got to live (and budget) off of. Consider the 50/30/20 rule and tweak it for debt Once you have your net income figure, there are a few different ways to divvy up your money. A common one is the 50/30/20 rule, a starting point that some financial planners use to develop budgets. The rule breaks down accordingly: 50%: basic/fixed needs (rent, utilities, transportation, insurance, healthcare, car payment, minimum loan payments) 30%: wants or variable expenses (dining out, clothing, cable subscription, entertainment, travel) 20%: savings and debt (emergency savings, additional debt payments) But to tackle larger debt, both student loan and credit card, experts say you'll likely need to reduce expenses to find at least 15% in your budget to pay for debt. It may mean reducing variable expenses, or if your housing costs are high, it could mean moving to a cheaper place, taking in a roommate, or even moving home for a period. If you can't cut expenses, then your other option is taking on a side hustle to bring in more money. Instead of forcing your budget into the 50/30/20 breakdown, some financial planners instead tweak the rule to better reflect the reality that millions of Americans owe five- or six-figure student debt. Hughes, for example, uses a 60/20/20 breakdown to create a budget: 60% fixed needs (includes monthly student loan payment and credit card payment if used for fixed expenses) 20% variable/discretionary expenses 20% savings and debt (if already saving 15% in your 401(k), put this 20% toward emergency savings, college savings, and extra debt payments) Lauryn Williams, a financial planning consultant with Student Loan Planner, uses a slightly different version, the 50/15/15/20 breakdown. 50%: fixed expenses (including car payment and possibly minimum student loan payment if budget allows) 15%: debt (credit card and student loan) 15%: savings in an emergency fund (assuming you're already contributing to a 401(k)) 20%: variable/discretionary expenses (she puts groceries here) Everyone's budget will be slightly different so take these percentages as guidelines. Some expenses that may seem non-negotiable to you could be easy to cut for someone else. Williams suggests imagining you lost your job to identify your fixed expenses and which variable expenses can be cut or adjusted. For example, to look for a new job, you'd still need your phone and Internet, and possibly a car. Calculate how much your loan costs each month Sometimes, it's easier (or necessary, if you don't have a job yet) to figure out your monthly loan payment first and then determine what your ideal budget would look like. Hughes typically starts here when working with clients. Let's say you just graduated with \$27,000 in undergraduate federal student loans. On a 10-year standard repayment plan with a 2.75% interest rate, your monthly payment is \$257.60. (Loans dispersed before 2020 have a higher interest rate, so the payment would be higher.) To meet this payment comfortably—at the recommended 8% gross salary limit—your minimum salary must be \$38,641, according to the Mapping Your Future calculator. If you're earning more and \$257 per month feels easy, that's great—but it's important not to skip building your emergency fund at the same time as paying down your debt, experts say. Tempting as it is to pay off student loans, it's crucial to "put on your own oxygen mask first," Williams says. And if you carry high-interest credit card debt, that's more important to pay off before throwing extra money at low-interest student loans. On the other hand, if you're earning a low salary that makes federal loan payments on a 10-year-plan uncomfortably high, an income-driven repayment plan can help you keep payments at the 10% threshold. You can see what your monthly payments would be with the income-driven loan calculators at Savingforcollege.com or the federal loan simulator. Remember, private student loans don't qualify for these payment plans. You'll have to build that payment into your budget. Ads by Money. We may be compensated if you click this ad.AdRefinancing your student loan could allow you to payoff your student debt early.Lower your interest rate or reduce your monthly payment.Refinance my Student Loan What to know about payments on income-driven repayment plans The income-driven repayment (IDR) plans can be key if the numbers don't add up under the standard repayment plan. For these federal programs, the Department of Education generally allocates 10% to 15% of a borrower's "discretionary income" for the monthly payments under three income-driven repayment plans available to students. These plans allow borrowers to pay loans on a 20- or 25-year schedule and then the government will forgive any balance that's left over at the end. You might end up paying more in interest over this timeframe, and you must recertify each year to verify your family size and income—but income-driven repayment may be the best plan for your salary. It's important to keep in mind that your discretionary income differs from other definitions of income. The government calculates it based on your adjusted gross income and the federal poverty rate. Here's how it works: Let's say you're single and your adjusted gross income is \$60,000. The federal poverty rate for one person in 2021 is \$12,880. Multiply that by 1.5 for the figure to subtract from your AGI. \$12,880 x 1.5 = \$19,320 \$60,000 - \$19,320 = \$40,680 (this is your discretionary income, according to the government) \$40,680 x .10 = \$4,068 (10% is the typical annual income-driven repayment amount. Some plans require 15%,) \$4,068 + 12 = \$339 (monthly payment) \$339 = the amount the government says you could afford on an income-driven plan when you take home \$60,000. If you're able, Hughes says contributing more to your 401(k) lowers your adjusted gross income, and in turn lowers your payment amount on an income-driven repayment plan. Keep in mind, at the end of 20 or 25 years, you may need to pay taxes on the forgiven amount. Before you borrow, research career salaries If college is still in your future, the best plan to avoid getting in over your head is to research prospective salaries for your career path. Then work backward to determine how much you can afford to borrow. That also helps you determine which colleges are more affordable, Williams says. Limiting borrowing for graduate or professional programs (medicine, law, dental school) may be trickier, but knowing possible debt outcomes still helps you plan your career path. Hughes recommends using PayScale.com as a starting point. More from Money: The 15 Master's Degrees With the Best Return on Investment Federal Student Loan Forgiveness Programs Already Exist. Why Aren't More Borrowers Taking Advantage? Should You Keep Paying Your Student Loans Even If They Might Get Forgiven? A car is important for transportation as well as a way to express your personality. According to the Federal Trade Commission, car prices average \$28,000 for a new car and \$15,000 for a used one, so you likely will need to take out a loan to buy a car. Several factors influence whether you can obtain a car loan and at what interest rate. One of them is the amount of your monthly income. Your debt-to-income ratio is a major factor in obtaining a car loan. DTI is the amount of monthly recurring debt you have (such as rent, car payment, credit cards or student debt) divided by your monthly gross income before taxes. For example, suppose your monthly income is \$4,000, your rent is \$1,100, your minimum credit card payments are \$30 and your student loan payment is \$100. Your DTI ratio, before you buy the car, is about 31 percent. Most lenders use a DTI ratio of 36 percent as the threshold for lending. So, in the example above, you'll want to keep your car payment at \$200 a month or less. If your DTI exceeds 36 percent, you may still find a lender willing to lend to you, but you'll pay a premium in higher interest rates. You also want to be sure you can afford to make your monthly payments each month. A good rule of thumb is that your auto expenses (including loan, gas and insurance) shouldn't be more than one-fifth of your disposable income, or what you actually have left after paying rent and other debts. You may be tempted to extend the term of your loan, for example, from four years to six, so that you can buy a more expensive car. If you do this, however, you'll pay a lot more in interest over the longer term. One option is to put some cash down, which will then lower the amount you need to finance, thus lowering your payments. Income isn't the only factor in whether you'll get a car loan. Credit history, especially your credit score, is another key factor. Checking your credit report before you go shopping or see a lender is a good idea. If your income or credit report are marginal, you may consider asking your parents or another relative to co-sign the loan for you. A co-signer lowers the risk for creditors because he agrees to repay the loan if you don't. Proper home purchasing contracts have a contingency clause or conditions that must be met before the parties close the deal. A loan contingency protects the house buyer from unintended financial and legal repercussions arising from an inability to get financing. Since there is no standard loan contingency clause, use a lawyer to negotiate terms and provisions with the seller for you. A contingency offer means you have placed an offer on a home, and the seller has accepted it, but you will only close the deal when certain criteria are met. Under the loan contingency, the seller allows you a specified time to get a loan to cover the purchase. If you do not get a lender to commit by the set date, you walk away from the sale without penalties, and you get your down payment back. Contingency removal varies from one contract to another. Active removal - which requires more paperwork - can, in theory, ensure a buyer's protection beyond the contingency deadline. Under active removal, the buyer actually must ask in writing for the contingency to be removed. For example, if the clause allows the customer ten days to remove a loan contingency, it protects the buyer until he asks for it to be removed, even if it is beyond the ten-day period. The seller cannot unilaterally act and remove the contingency, but he does have the right to ask the buyer to communicate about the status of the loan application. Passive removal is like an alarm clock - it goes off at the stated time, even if the buyer needs more time. For example, if the contingency states that a buyer will notify the seller of failure to obtain a loan 20 days before the closing date, by default the contingency expires if the buyer does not communicate in time. In this case, the buyer is bound by the agreement and cannot cancel the purchase offer without a penalty. The results, depending on your purchase agreement, can be serious problems such as forfeiting your deposit or facing lawsuits to compensate the seller for the time he took his house off the market. Include all of your contingencies as part of the purchase offer and ensure the seller agrees to the terms before signing the agreement. Removing your loan contingency makes your offer more attractive because it signifies your commitment to buy a house, but it is a potentially perilous decision. Consider all possible outcomes such as delayed funds or losing your job before waiving the contingency. Hacks & Tipps Spaß für alle! DIY Tob dich kreativ aus! 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