

Interest and taxes

Understanding the interest that accrues (gathers) on your student loans is key to your repayment journey. Here's what you need to know about interest, your taxes, and easy ways to save money.

Student loan interest

When you take out student loans, you're required to repay your **principal balance** (the amount you borrowed) plus interest. **Interest** is a percentage of your principal balance.

- The longer you take to pay off your principal balance, the more interest will accrue (gather). This increases the total amount you need to repay.
- You pay less interest when you pay your loans down faster. So, you can save money if you pay more than your minimum balance each month – or whenever you can.
- Interest rates for U.S. Department of Education Federal Family Education Loan Program (FFELP) loans and Direct Loans depend on the type of each loan and the year you got each loan. To learn more, read the agreements and disclosures you got when you took out your student loans.

Simple daily interest calculation

You can find the amount of interest that accrues on your loan by a simple daily interest calculation:

unpaid principal balance x interest rate ÷ 365 (days in the year) = approximate daily interest

If you have many student loans, you likely have different interest rates for each.

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For questions, call **800-722-1300**. TDD/TTY users call 711.

Call Eastern Time, Monday 8 a.m. – 11 p.m., Tuesday through Friday 8 a.m. – 8 p.m., and Saturday 10 a.m. – 2 p.m.

Visit the **Interest Estimator** tool to learn how much interest is accruing on your loans in a given time period, using your current loan balances and interest rates:

- [Log in to your account](#)
- Go to the **Tools & Requests** page
- Select **Interest Estimator**
- Select the number of days up to 31 days in the future
- Select **Calculate**

Capitalized interest

Interest capitalization is when unpaid interest is added to your unpaid principal balance. This typically happens at the end of:

- Your **grace period**, the six months after you leave school or drop below half time
- A **deferment**, when your payments are postponed
- A **forbearance**, when your payments are temporarily suspended or reduced

Depending on your loan program and your agreement when you took out your loan, interest may also be capitalized during other periods when payments are postponed and in connection with certain repayment plans.

Capitalization will increase your principal balance. Future interest will accrue on that larger balance.

To limit capitalized interest, you can pay your interest before it is capitalized. For example, you can pay the interest while you're in school instead of waiting until after graduation.

You can see any capitalized interest amounts in your [Account History](#).

Who sets student loan interest rates

Direct Loans from the Department of Education

Congress sets interest rates on Direct Loans from the Department of Education through laws that tie the rate to financial markets. Interest rates are calculated each spring for new Direct Loans for the upcoming academic year – July 1 through June 30.

Most federal student loan interest rates are fixed for the life of the loan and do not change. Some loans have a variable interest rate that can change yearly.

Your student loan servicer does not set your student loan interest rate and cannot change it.

Loans through the Federal Family Education Loan Program (FFELP)

Congress also sets the interest rate for existing FFELP loans. New FFELP loans are no longer being made. The program ended in 2010.

FFELP loan interest rates are fixed for the life of the loan and do not change, or they are variable and can change yearly.

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Ways to save money

Pay your interest before it's capitalized

To avoid capitalized interest, pay your interest before it's capitalized. For example, you can pay the interest while you're in school instead of waiting until after graduation.

While you're in school and during your grace period, we'll update your account and send emails about your interest owed and your anticipated payment start date.

Sign up for Auto Pay

During periods when you make monthly payments with Auto Pay, you will get a 0.25% interest rate reduction on those student loans.

With Auto Pay, we automatically deduct loan payments from your bank account. This helps you make your payments on time.

To enroll in Auto Pay, [log in to your account](#).

Lower your taxable income using Form 1098-E

You may be able to deduct (subtract) interest paid on your eligible student loans on your federal tax return. This could lower your taxable income.

Form 1098-E is a tax form that summarizes the student loan interest you paid during a tax year. A tax year is the same as a calendar year, such as the year 2022.

You can get your Form 1098-E starting in February after the tax year ends. For example, you can get Form 1098-E for 2022 starting in February 2023.

You don't need a paper copy of the form to file your taxes! There are a few ways to get your Form 1098-E:

- **Email:** Getting your Form 1098-E by email is quick, easy, and secure! To sign up, [log in to your account](#).
- **Online:** To get your Form 1098-E online, [log in to your account](#).
- **Phone:** Call to get your eligible interest amount from our automated voice system at **800-722-1300**.

The Aidvantage – Federal Student Aid Tax ID number is 52-1198289.

[Learn more ways to pay off your student loan faster](#)

Long-term interest calculation example

The chart on the next page shows the impact that making interest payments during a period of deferment or forbearance can make over the life of the loan. This example shows interest calculations for a loan with:

- A \$30,000 balance
- A 6% interest rate
- \$0 accrued interest before the period of deferment or forbearance

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In this example, paying the interest only during the deferment or forbearance, when interest is capitalized quarterly and at the end of the deferment or forbearance, lowers the monthly payment by about **\$21 a month**. That's about **\$714** over the life of the loan.

This is just an example. The actual impact on your loans, including the capitalization of interest, may vary based on such things as:

- The loan program
- Interest rate
- Amount owed at the time you enter deferment or forbearance
- Length of your deferment or forbearance
- Repayment period
- Frequency of capitalization
- Future repayment pattern
- Whether the federal government pays the interest accruing during deferment

	Interest paid during deferment or forbearance	Interest capitalized at the end of deferment or forbearance	Interest capitalized quarterly during deferment or forbearance and at the end
Loan amount	\$30,000	\$30,000	\$30,000
Capitalized interest for 12 months	\$0	\$1,800	\$1,841
Principal to be repaid	\$30,000	\$31,800	\$31,841
Monthly payment	\$333	\$353	\$354
Number of payments	120	120	120
Total amount repaid	\$41,766*	\$42,360	\$42,480
Total interest paid	\$11,766	\$12,360	\$12,480

*Total amount repaid includes interest paid during the 12-month period of deferment or forbearance



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