

## Student Loans

Two out of every three college students use some type of financial aid to help them cover their expenses. While you may be fortunate enough to have qualified for some grants and scholarships, it is likely that you have also had to take out a student loan to cover some of the cost of your education. Student loans can actually be a very positive first step in establishing your financial life.

Student loans have some distinct advantages over other types of debt:

- 1) They are "good debt" in that they are being used to purchase an asset, your education, which will continue to appreciate in value throughout your working life.
- 2) They are generally very low cost (low interest rates apply).
- 3) They are often the first step in establishing yourself in the credit reporting system as a person who handles their debt responsibly.



**Beware of scams** and services that will search for financial aid money for you for a fee. A law protects you from this type of fraud. Applying for student aid is **FREE**; that's why the application you use is called the Free Application for Federal Student Aid (FAFSA). If you need help completing the FAFSA, you can get that help free, too. You don't have to pay anyone for assistance.

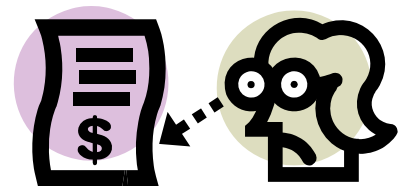
### Find Out About Your Loan:

If you have a student loan, it is very important to make sure you know what the terms of your loan are. Your original promissory note will identify your lender, the amount borrowed and the terms of your loan. If you don't know who services your loan (this may be a different company than the bank that actually gave you the loan) use the National Student Clearinghouse's Loan Locator at [www.studentclearinghouse.org](http://www.studentclearinghouse.org) or call 1-800-4-FED-AID.

Remember: You are responsible for repaying your student loans even if you do not finish school, do not graduate, have trouble finding a job, or just didn't like your school. If you do not make any payments on your student loans for 270 days and do not make special arrangements with your lender, your loans will be in default. Defaulting on your student loans has serious consequences.

Almost three-quarters of students who default on their loans have done so after withdrawing from school and failing to complete their studies, leaving them in the position of owing a lot of money for a degree they did not actually complete; the debt, without the credentials.

Student loan borrowers in default have more options than previously to repay their student loans. The U.S. Department of Education's Collections Department is committed to assisting those in default by making repayment of their debts a simple process. The US Department of Education Debt Collection Service publishes a guide called *Guide to Defaulted Student Loans* to help students repay their defaulted student loans. It includes information about repaying a defaulted student loan, loan consolidation, the consequences of default, collection costs, resolving disputes, ineligibility for further federal student aid and related topics. For more information on repaying a defaulted loan, call 1-800-4-FED-AID (1-800-433-3243) or 1-800-621-3115.



## Defaulting on Student Loans:

If you default on your student loan you need to be aware of the consequences:

- Your loans may be turned over to a collection agency.
- You'll be liable for any costs associated with collecting your loan, including court costs and attorney fees.
- You can be sued for the entire amount of your loan.
- Your wages may be garnished up to 10% of your disposable income towards the repayment of your loan. Federal employees face the possibility of having 15% of their pay garnished.
- Your federal and state income tax refunds may be intercepted.
- The federal government may withhold part of your Social Security benefit payments.
- Your defaulted loans will appear on your credit report.
- You won't receive any more federal financial aid until you repay the loan in full or make arrangements to repay what you already owe and make at least six consecutive, on-time, monthly payments. (You will also be ineligible for assistance under most federal benefit programs.).
- You'll be ineligible for deferments.
- Federal interest benefits will be denied.
- You may not be able to renew a professional license you hold.

## Preventing Default

The consequences of defaulting are serious. To avoid them you need to:

- Make sure you understand your options and responsibilities before taking out a loan. Read all of the fine print!!
- Make your payments on time.
- Notify your lender or loan servicer promptly of changes that may affect repayment of your loan. If you move, change your address or name (e.g., because of marriage), your graduation or termination of studies, a leave of absence and/or transfers to another school all require notification.
- If you have financial difficulties, consider applying for a deferment or forbearance on your loan (see below). It is better to defer your payments than to default. Ask your lender about these options before problems arise.
- If you are having trouble making payments, your lender may be able to suggest alternate repayment options, such as graduated repayment, income sensitive repayment and income contingent repayment.
- Consider using a consolidation loan to combine all of your educational loans into one big loan. This lets you send your payments to just one lender. You may also be able to extend the term of the loan in order to reduce the size of your monthly payments.
- Keep careful records regarding your loan.

## Postponing Repayment

Two options available for postponing repayment of your student loans are deferments and forbearances. If your financial circumstances put you at risk of defaulting on your student loans, ask the lender whether you are eligible for a deferment or forbearance *before* you default. You cannot receive a deferment or forbearance if your loan is already in default.



## Deferments

During deferment, the lender allows you to postpone repaying the principal of your loan for a specific period of time. Most federal loan programs allow students to defer their loans while they are in school at least half time. For Perkins Loans and Subsidized Stafford Loans, no interest accrues during the deferment period because the federal government pays the interest. For other loan programs, such as

the unsubsidized Stafford loan, the interest still accrues during the deferment period. Students can postpone the interest payments on such loans by capitalizing the interest, which increases the size of the loan. (Capitalizing the interest adds it to the loan principle. This increases the amount of the debt, which means you'll be paying interest on interest, in addition to interest on the principal.)

Deferments are commonly granted for

- students who are enrolled in undergraduate or graduate school
- disabled students who are participating in a rehabilitation training program
- Unemployment, and/or
- economic hardship



These deferments are for the FFELP and FDSLPL loans only, not the Perkins loan. Other deferments may also be available; contact your lender for details. Note also that there are limits on the length of a deferment.

Deferments are not granted automatically. You must submit an application and provide documentation to support your request for a deferment. Do not stop making payments on your student loans until after you are notified that your deferment has been granted.

## **Forbearances**

During forbearance, the lender allows you to postpone or reduce your payments, but the interest charges continue to accrue. The federal government does not pay the interest charges on the loan during the forbearance period. You must continue paying the interest charges during the forbearance period.

There are limits on the length of forbearance, and they are typically granted in 12-month intervals for up to three years.

Forbearances are not granted automatically. You must submit an application and provide documentation to support your request for a forbearance. Forbearances are granted at the lender's discretion, usually in cases of extreme financial hardship or other unusual circumstances when the borrower does not qualify for a deferment. Do not stop making payments on your student loans until after you are notified that your forbearance has been granted.

## Getting Out of Default

If you have allowed your loan to fall into default, you will need to take some steps to get out of default. To get out of default, you need to make arrangements with your loan servicer or lender to repay the loan. Once you have made six regular payments, you will be eligible for additional Title IV aid. After you have made twelve regular payments and applied for and received "rehabilitation", you will no longer be considered in default. At this time, record of the default will be removed from the reports to credit reporting bureaus.

For information about your options, contact the servicer of the loan and/or the original lender. The financial aid office at your school should be able to tell you the name, address and telephone number of your lender and can also provide you with help and advice about repayment problems.

## Loan Forgiveness

Under certain circumstances your student loan can be forgiven or repaid by other government agencies. Those circumstances may include volunteering, joining the National Guard, teaching in low income communities, work or military service. For more information, go to [www.finaid.org/loans/forgiveness.phtml](http://www.finaid.org/loans/forgiveness.phtml)

## Bankruptcy

As a last resort, you may be considering filing bankruptcy. However, student loans are now generally not dischargeable through [bankruptcy](#). If you are having trouble paying your school loans, your best move is to address that issue with your lender. You will probably not be in a position to file for bankruptcy just on the basis of your student loans. And even if you have other financial difficulties that would qualify you for bankruptcy, your student loans will not be eliminated by the bankruptcy and you will still be responsible for paying them back in full.

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