

Repaying your Student Loan Debt

When do I start repaying my loan?

After you graduate, leave school, or drop below half-time enrollment at a participating school, generally you have a “grace period” before you have to begin repayment.

- For FFEL Stafford Loans and Direct Stafford Loans, the grace period is six months.

During the grace period on a subsidized loan, you don’t have to pay any principal, and no interest will be charged (the federal government pays the interest). During the grace period on an unsubsidized loan, you don’t have to pay any principal, but interest will be charged. You can either pay the interest or it will be capitalized (added to your principal balance).

If you should return to school at least half time before the grace period ends, you again may postpone loan repayment while you’re in school, and you’ll be entitled to a full grace period when you terminate enrollment or drop below half-time enrollment status. You must understand, however, that once the grace period ends, you are in repayment status and must request a deferment if you want to postpone repayment.

How do I know where to send payments?

- Generally, you’ll repay a FFEL Stafford Loan to the lender that made the loan. Sometimes a loan holder contracts with a loan servicer to administer student loans. If that’s the case, you’ll make loan payments to the servicer.

Also, FFEL Stafford Loans are often sold to another lender or secondary market. The loan holder is required to notify you by mail if your loan is sold and give you the name and address of the new loan holder. Even if your loan is sold—which is a common practice—your rights, responsibilities, and repayment obligation won’t change.

Generally, you’ll receive billing statements or a coupon book from your loan holder. But, you’ll have to make all payments on time even if you don’t receive these.

What if I’ve forgotten what type of loan I have or who my loan holder is?

This information should be on the bill you receive from your loan holder. But, if you have questions about what loans you have, you can review your federal student loan history through the National Student Loan Data System (NSLDS). Note that NSLDS has information only about federal loans. If you obtained a private or nonfederal loan, you’ll need to contact the loan holder or your school for more information. You can obtain information about your NSLDS

record by contacting the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). You can also check NSLDS through the U.S. Department of Education's Federal Student Aid (FSA) Web site at www.studentaid.ed.gov. At the site, click on "Repaying," then click on "Get Your Loan Information."

To check NSLDS, you'll need a PIN (Personal Identification Number), which is a four-digit number ED will send you. With your PIN, you can review the type and amount of the ED loans you borrowed, the status of each loan, and the name, address, and telephone number of the loan holder. If you want to receive another copy of your PIN, change your PIN, or restrict access to your personal information, go to the Web site listed above. At the site, click on "Apply for PIN," right under "My FSA" in the left column.

Be a Smart Borrower

- Keep all your loan documents! This simple piece of advice is one of the most important. You'll have problems later if you can't find your promissory note, can't remember what type of loans you received, or don't know who you're supposed to repay or how you go about postponing (deferring) repayment if you should have financial difficulties. Keep a file of all documents connected with your loans from the time you first get a loan, so you'll always have what you need in one place. Then, you won't be confused about what you're supposed to do or who you're supposed to contact if you have questions.
- Whenever you talk to your lender or loan servicer, keep a record of the person you talked to, the date you had the conversation, and what was said. If you send letters, always include your loan account number, and keep copies of those letters (and the responses you receive) in your file. That way, you'll know who said what and when, which can help you avoid problems and misunderstandings.
- Notify your school and/or loan holder in writing if you move, change your name or Social Security Number, or reenroll in school. You must ensure your loan holder won't lose track of you. If that happens, you could miss payments and become delinquent (late). Also, your loan could be sold, and you won't know who has it or where to send payments because you couldn't be notified.
- Ask questions if there's something you don't understand or if you're having trouble making payments. Don't wait until things become too tough—ask for help from your loan holder or loan servicer right away!

Repayment Plans

When repaying your student loan, you have some choices in repayment plans (for FFEL and Direct Loans) that can make repaying easier and help you avoid delinquency or default. If you're delinquent, it means you're late making a scheduled loan payment (most often, you're 30 days or more late). Default generally means you're 270 days or more late in making a loan payment.

Although default is more serious than delinquency, even delinquency can be reported to credit bureaus. A delinquency notation remains part of your financial history and could affect your credit rating. Repaying your loan on time will help you establish and maintain a good credit rating, which is crucial when you want to buy a car or a house, or even if you want to rent an apartment. Sometimes, your credit rating can even affect whether you'll be selected for a particular job. So, it's important to keep paying on your student loans!

What repayment plans are available?

◆ Standard Repayment Plan

With the Standard Repayment Plan, you'll pay a fixed amount each month until your loan is paid in full. Your monthly payments will be at least \$50, and you'll have up to 10 years to repay. The Standard Repayment Plan is good for you if you can handle higher monthly payments because you'll repay your loan more quickly. Your monthly payments will be higher than under the other plans because your loan will be repaid in the shortest possible time. Because of the 10-year limit on repayment, however, you might pay the least amount of interest.

◆ Graduated Repayment Plan

Under the FFEL Graduated Repayment Plan, your payments will be lower at first, then increase over time. Each payment must at least equal the interest accrued on the loan between scheduled payments. No scheduled payment amount can be more than three times greater than any other scheduled payment amount. You're generally expected to repay the loan within 10 years.

◆ Income Sensitive Repayment Plan

The FFEL Income Sensitive Repayment Plan bases your monthly payment on your yearly income and your loan amount. As your income increases or decreases, so do your payments. Each payment must at least equal the interest accrued on the loan between scheduled payments, and no scheduled payment amount can be more than three times greater than any other scheduled payment amount.

◆ Extended Repayment Plan

The Extended Repayment Plan is available to new FFEL borrowers who received their first loan on or after October 7, 1998 and who have FFELs totaling more than \$30,000. Under the Extended Repayment Plan, your payments will be fixed or graduated (lower at first and then increased over time) over a period of up to 25 years.

Remember, the longer your loan is in repayment, the more interest you'll pay, and the more your loan will cost you.

Can I do anything to deal with the interest?

Some loan holders offer reduced interest rates if you repay your loan using electronic debiting (allowing your bank to automatically deduct your monthly loan payments from your checking or savings account).

Sometimes you can get a reduced interest rate if you make a certain number of consecutive on time monthly payments. For the FFEL Program, you should contact your lender to find out about these options.

There are tax incentives for certain higher education expenses, including a deduction for student loan interest for certain borrowers. This benefit applies to federal *and* nonfederal loans taken out to pay for postsecondary education costs. The maximum deduction is \$2,500 a year. IRS Publication 970, *Tax Benefits for Higher Education*, explains these credits and other tax benefits. You can find out more by calling the IRS at 1-800-829-1040.

How do I know which repayment plan is best for me?

Although you're asked to choose a plan when you first begin repayment, you might want to switch plans later if a different plan would work better for your current financial situation. Under the FFEL Program, you can change plans once a year.

I'm having problems making repayments. What can I do?

First, contact your lender or loan servicer right away if you think you're going to have trouble making payments. Don't wait until you get behind!

Your loan holder can look at your situation and offer several options to help you, including consolidation, deferment, and forbearance, as well as a choice of repayment plans, as discussed in the previous section.

Deferment

What is deferment?

Deferment is a postponement of repayment under various, specific circumstances. Listed below are reasons for deferment

- At least half time study at a postsecondary school
- Study in an approved graduate fellowship program or in an approved rehabilitation training program for the disabled
- Unable to find full-time employment
- Economic hardship
- Engages in service listed under discharge/cancellation conditions

Here's one of the most important things to remember: **You must continue to make payments on the loan until you've been notified the deferment has been approved.** Sometimes borrowers apply for deferment and don't hear anything back and assume things are fine. Or, as soon as they send a deferment form and their paperwork, they think they can immediately stop payment. Even if the paperwork is received without any problem, it takes a while to process. So, don't skip the next payment when it's due. First, check with the loan holder. If your deferment has not been processed, make your payment! You might go into default otherwise. **You can't get any deferment on a defaulted loan.**

Forbearance

What is forbearance?

If you find you can't meet your repayment schedule but you're not eligible for a deferment, you might be granted forbearance for a limited and specified period. During forbearance, your payments are temporarily postponed or reduced. Forbearance can also be an extension of the time you have to repay your loan. Unlike deferment, whether your loans are subsidized or unsubsidized, you'll be charged interest during forbearance. If you don't pay the interest as it accrues, it will be capitalized.

As is true with deferment, you aren't just granted forbearance automatically; you must formally request one from your loan holder. You might have to provide documentation to support your request.

You might be granted forbearance if you are

- ◆ unable to pay due to poor health or other unforeseen personal problems.
- ◆ serving in a medical or dental internship or residency.
- ◆ serving in a position under the National Community Service Trust Act of 1993
- ◆ obligated to make payments on certain federal student loans that are equal to or greater than 20 percent of your monthly gross income.

This is not a complete list of conditions that might qualify you for forbearance.

For more information, contact your loan holder.

Unlike deferment, which you're entitled to receive, the loan holder does not have to grant forbearance except in certain mandatory circumstances (check with your loan holder for details). In most cases, however, lenders are willing to work with you if you show you're willing but temporarily unable to repay your debt.

Loan Discharge (Cancellation)

In some cases, your federal student loan can be discharged (canceled).

A discharge releases you from all obligation to repay the loan. Your loan can't be discharged because you didn't complete the program of study at the school, you didn't like the school or the program of study, or you didn't get a job after completing the program of study.

For more information about discharge, contact the lender or agency that holds your loan.

Reasons for Loan Discharge:

- Borrower's total and permanent disability or death
- Full-time teacher for five consecutive years in a designated elementary or secondary school serving students from low-income families
- Bankruptcy (in rare cases) Cancellation is possible only if the bankruptcy court rules that repayment would cause undue hardship.
- Closed school (before student could complete program of study) or false loan certification
- School does not make required return of loan funds to the lender. Up to the amount that the school was required to return.
- Up to \$5,000 of the aggregate loan amount that is outstanding after completion of the fifth year of teaching.

Are there any other options?

Your state might offer programs that cancel or reduce part of your loan for certain types of service you perform (such as teaching or nursing).

Contact your state agency for postsecondary education to see what programs are available in your state. For the address and telephone number of your state agency, call the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). You can also find this information at www.studentaid.ed.gov At the site, click on the "Funding" tab, then go to "State Aid." You should also contact professional, religious, or civic organizations to see if any benefits would be available to you. Although not a loan cancellation, some branches of the military offer loan repayment programs as an incentive for service. Check with your local recruiting office for more information. Another type of repayment assistance (again, not a discharge) is available through the Nursing Education Loan Repayment Program (NELRP) to registered nurses in exchange for service in eligible facilities located in areas experiencing a shortage of nurses. All NELRP participants must enter into a contract agreeing to provide full-time employment in an approved eligible health facility (EHF) for 2 or 3 years. In return, the NELRP will pay 60 percent of the participant's total qualifying loan balance for 2 years or 85 percent of the participant's total qualifying loan balance for 3 years. For more information, call NELRP, toll-free, at 1-866-813-3753 or visit www.bhpr.hrsa.gov/nursing/loanrepay.htm

The AmeriCorps Program allows participants to earn education awards—including money to repay student loans—in return for national service. For more information, contact the Corporation for National Service, which administers the AmeriCorps Program:

Corporation for National Service

1201 New York Avenue NW
Washington, DC 20525
1-800-94-ACORPS (1-800-942-2677)
202-606-5000
TTY: 202-565-2799
Web site: www.americorps.org
E-mail: Questions@americorps.org

Some federal agencies will repay all or part of a borrower's federal student loans, including the U.S. Department of Defense, the U.S. Department of Health and Human Services, and the Corporation for National Service. ED has no jurisdiction over these non-ED programs. If you work for a federal agency, check with that agency to see if it participates.

Default

We've discussed ways to help you meet your loan repayment obligation. Explore all the options you can—the last thing you want to do is default.

What is default?

Default for a FFEL or Direct Loan occurs if you become 270 days delinquent (if you're making monthly payments) or 330 days delinquent if you pay less often than monthly.

What happens if I default?

The consequences of default are severe:

- ◆ The *entire* loan balance (principal and interest) can be immediately due and payable.
- ◆ You'll lose your deferment options.
- ◆ You won't be eligible for additional federal student aid.
- ◆ Your account might be turned over to a collection agency. If so, you'll have to pay additional interest charges, late fees, collection costs, and possibly court costs and attorney fees. These costs will really add up, and it will take you even longer to pay off your student loan.
- ◆ As mentioned earlier, your account will be reported to national credit bureaus, and your credit rating can be damaged. You might find it very difficult to receive other types of credit, such as credit cards, car loans, or mortgages. Because many landlords do credit checks, it might be hard to rent an apartment. Some employers check to see if you're responsible by looking at your credit rating, so bad credit could even affect getting a job. On top of this, your default will remain on your credit report for up to *seven years*.
- ◆ Your federal income tax refunds (and in some states, your state income tax refunds) might be withheld and applied toward your loan repayment. This happens a lot to defaulters, and it can really hurt if you were counting on that refund.
- ◆ Your employer, at the request of the loan holder, may withhold (garnish) part of your wages.
- ◆ You might be unable to obtain a professional license in some states.

Do these sound serious? They are, so don't let any of them happen to you! Make sure to contact your lender as soon as you think you might have trouble making payments. Don't ignore any calls or letters from your lender or servicer, either. Putting things off is never the answer because these loans won't go away; talk to your lender and discuss all the options for making payment easier that you've seen in this booklet. Get the details from your lender/servicer on how you can benefit from these options. Don't default!

Facts You Should Know & Remember

- ◆ A loan, unlike a grant, is borrowed money that must be repaid.
- ◆ You must repay your loan even if you didn't like the education you received or you can't obtain employment after you graduate.
- ◆ You must keep the loan holder informed of a change in your name, address, telephone number, Social Security Number, or enrollment status.
- ◆ You must make payments on your loan even if you don't receive a bill or repayment notice. Billing statements are sent to you as a convenience, but you're obligated to make payments even if you don't receive any reminders.
- ◆ You can prepay the whole loan or any part of it at any time without penalty. This means you are paying some of the loan before it's due.
- ◆ If you apply for deferment, forbearance, or consolidation, you must continue to make payments on your loan until you have been notified that your request has been processed and approved.
- ◆ Your student loan account balance and status will be reported to national credit bureaus on a regular basis. Just as failing to repay your loan can damage your credit rating, repaying your loan responsibly can help you establish a good credit rating.
- ◆ The consequences of defaulting on a federal student loan are severe and long lasting.
- ◆ There are repayment options available to assist you if you're having trouble making payments.

What if I decide to return to school?

If you leave school but return for additional schooling at least half time *before* your grace period ends, you again can postpone loan repayment while you're in school, and you'll be entitled to a full grace period when you leave school or drop below half-time status. You should understand, however, that if you return to school *after* your grace period ends, you're in repayment status and must request a deferment if you want to postpone repayment.