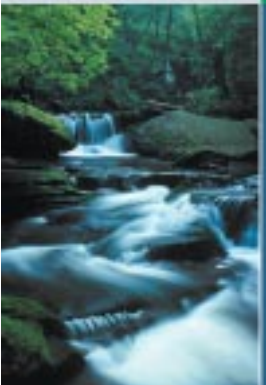


Drowning in Student Loans?



If you can't make payments on your student loans, don't panic. Don't just give up and invite default, either. Default means that your credit will be damaged and your loan balance will increase dramatically with the addition of collection fees. And once you default, the holder of your loan will probably grab a portion of your paycheck and nab any tax refund to which you are entitled. If you're really unlucky, you'll be sued. Don't expect to be able to discharge your student loans in bankruptcy. It is nearly impossible.

▶ Myvesta is a nonprofit consumer education organization. We provide a wide range of educational materials to assist those in financial need. Visit us on the Web at Myvesta.org.



Fortunately, all student loan lenders offer a variety of repayment plans. So if you can't afford your current payments, don't assume that your current repayment plan is the only possible one. Consider all of the possible options available to you.

Standard Repayment Plan

The original repayment scheme offered by your lender is known as a standard plan. With a standard plan, you usually pay the same amount each month for 10 years. Standard repayment plans come with the highest monthly payments but cost the least in the long run because the loans are paid off the quickest — meaning you pay less interest than you would pay with other repayment plans.

Graduated Repayment Plan

Under a graduated plan, your payments start out low and increase every few years. This is often the best option for people just starting a career or business who have a low income that's likely to increase steadily over time.

If you qualify for the graduated plan offered under the federal Direct Loan Program, your payments start at as little as half of what they would be under the standard plan, and then increase every few years. Other lenders' plans vary. Some require that you pay only the interest on your loans for a few years. Then you switch to payments of principal and interest until your loan is paid off.

With any graduated repayment plan, you'll pay more for your loan over time than you would under a standard plan.

Because interest charges are based on your unpaid balance each month, if you keep a higher balance in the early years of your loan, interest will add up quickly.

With any graduated repayment plan, you'll pay more for your loan over time than you would under a standard plan.

Extended Repayment Plan

Under an extended repayment plan, your payback term stretches over a period of 12 to 30 years, depending on your loan amount. Your fixed monthly payment is lower than it would be under the standard plan, but you'll pay more interest because the repayment period is longer.

Most lenders let you combine the extended plan with graduated payments, which will lower your payments even further but increase your overall costs even more.

Income-Contingent or Income-Sensitive Repayment Plan

Under an income-contingent or income-sensitive repayment plan, each year your monthly payments are recalculated based on your prior year's annual income, household income and loan amount. The amount you pay annually will never exceed 20 percent of your discretionary income — that is, your annual gross income less an amount based on the poverty level for your household, as determined by the Department of Health and Human Services. To qualify for an income-contingent plan, you must authorize the IRS to release your income information to the Department of Education.

If your income is very low, you may not be required to pay anything under an income-contingent or income-sensitive plan, or the amount you pay each month may be less than the amount of interest that is accumulating. This may feel like a relief, but be aware that as time goes on, your loan balance will continue to increase and eventually it may seem as if you'll never get out from under it.

If you're paying under a federal direct income-contingent plan, the government will

forgive any balance remaining on your loans after 25 years. Private lenders' income-sensitive repayment plans contain no provision for loan forgiveness after 25 years.

Loan Consolidation

With loan consolidation you can lower your monthly payments by combining several loans into one packaged loan and extending your repayment period.

As with other low payment options, consolidating your loans will greatly increase the amount of interest you pay over the life of your loan. You may also be able to refinance several loans, or just one loan, to secure a lower interest rate. This is also called consolidation.

Many different lenders offer consolidation loans. Your repayment options will vary slightly depending on the lender you choose. For example, to consolidate under the federal Direct Loan Program you must either:

- ▶ have a federal direct student loan, or
- ▶ have tried and failed to obtain a consolidation loan with terms as good as those offered by the government.

Consolidation lenders generally allow you to stretch the term of your loan to 12 to 30 years, depending on your balance. You can choose a fixed monthly payment for the life of the loan or a graduated payment plan.

If lengthening the repayment period doesn't bring down your monthly payment enough, you can choose a payment plan based on your income level. Income-contingent and income-sensitive plans are available for most consolidation loans.

Canceling Your Loans or Postponing Payments

If you've considered all repayment options and you still can't pay, all is not lost. In certain

limited circumstances, you may be able to cancel your student loans. If you can't cancel your student loans, you can probably find a way to postpone making payments by obtaining a deferment or forbearance.

A deferment is a delay based on a specific condition — such as returning to school or being unemployed — that excuses you from making payments for a set period of time.

A forbearance is permission from your loan holder to stop making payments for a set period of time. Forbearances are easier to obtain than deferments because they are not tied to the type of loans you have or the date you obtained them, but they cost more. With a deferment, interest usually stops accruing. Not so with a forbearance. Here are the rules for cancellation and deferment for most **federal** loans.

- ▶ **Death of the borrower.** If a former student borrower dies, the executor can cancel any federal student loan.
- ▶ **Permanent total disability.** You can cancel any federal student loan if you are unable to work or go to school because of an injury or illness that is expected to continue indefinitely or result in your death.
- ▶ **Temporary total disability.** If you, your spouse or a dependent is temporarily totally disabled, you can defer the payments on most loans for up to three years.
- ▶ **Enrollment in rehabilitation program for the disabled.** If you are enrolled in a rehabilitation program for the disabled, you can defer payments on most loans.
- ▶ **Unemployment.** You can defer the payments on most loans, usually for up to three years if you are unemployed but looking for work.
- ▶ **Economic hardship.** You can defer payments on federal loans that meet

certain conditions for up to three years if you are suffering an economic hardship. You are automatically entitled if you receive public assistance. Otherwise, qualifying is based on a mix of your income, the federal minimum wage, the federal poverty level and your monthly or annual federal student loan payments.

- ▶ **Parents with young children.** If you are a working mother or a mother or father on parental leave, you can often defer your student loan payments.
- ▶ **Enrollment in school.** If you return to school to study at least half-time, you can almost always defer the payments on your student loans.
- ▶ **Membership in a uniformed service.** If you currently serve the U.S. government in the U.S. military, the National Oceanic and Atmospheric Corps or the U.S. Public Health Service, there are several situations in which you may cancel or defer your loans.
- ▶ **Teaching needy populations.** If you teach certain needy populations — including low-income or disabled students — you may be able to have your student loans canceled or the payments deferred.
- ▶ **Providing services other than teaching to needy populations.** If you serve certain needy populations (in a capacity other than teacher), you may be able to have your student loans canceled or payments deferred.
- ▶ **Performing community service.** In many situations, you can partially cancel your student loans or defer your payments in exchange for performing community service. Opportunities range from serving in the peace corps to volunteering your time with an organization that assists low-income people in your community.

▶ **Working in the healthcare profession.** If you are a healthcare professional, such as a nurse or a physician in your residency, you may qualify for loan cancellation or deferment.

▶ **Working in law enforcement.** Full-time law enforcement and corrections officers can cancel some older Perkins Loans.

▶ **Attended a trade school.** Many former students were lulled into taking out student loans to attend a trade school, only to have the school doors close before they could finish the program. Other students were falsely certified by school officials as being able to benefit from the loan. If this happened to you, you can probably cancel 100 percent of your federal student loan.

To apply for a new repayment plan, cancellation, deferment or forbearance, get in touch with the holder of your loan. If you are not in default, the holder of your loan is where you send your payments.

It can be tricky finding the holder of your loan. If you are in default, you may not know who the holder of your loan is. If you don't know, contact either the Federal Student Aid Information Center or the Department of Education's Debt Collection Services Office.

Options When You Have Defaulted on Your Student Loan

A loan generally defaults when payment has not been made for more than 180 days and no payment arrangements have been worked out with the lender. If you defaulted on a federal student loan, you may be able to get out of default by requesting a reasonable and affordable repayment plan. Under this plan, the debtor asks the holder of the loan to allow payment that is reasonable and affordable.

According to Robin Leonard, author of *Take Control of Your Student Loan Debt*, published by Nolo Press and available at Myvesta.org, you should request a plan by saying one of the following:

- ▶ “I want a reasonable and affordable repayment plan to renew my eligibility.”
- ▶ “I want to rehabilitate my loan.”
- ▶ “I want to qualify for loan consolidation.”

Different lenders may use slightly different lingo but one of the above should be understood by your lender.

The lender considers several factors in deciding what amount is reasonable and affordable for a particular debtor. These factors include the debtor’s disposable income (how much money you are left with after deductions like Social Security, taxes, child support, etc.) and necessary expenses (food, housing, utilities, etc.).

There are no formal rules specifying what amount is considered reasonable and affordable. Payment plans are designed to fit the particular situation of the debtor requesting it.

When requesting a plan, you want the lender to have an accurate picture of your finances. Send the lender copies of documents showing your expenses each month. Often, the lender will have a form on which you record and submit this information.

Within a few weeks, the lender will consider your request and will let you know the amount it expects you to pay each month. If you can’t pay that amount, you should contact the lender immediately. You are only given one chance to get out of default. If you agree to make

payments and then fail to pay, you probably will not have another opportunity to get out of default in this manner.

After you have made six consecutive on-time payments, you will be eligible to apply for new federal loans.

To bring your loan out of default status, you will need to make 12 consecutive timely payments. Once your loan is out of default, you can apply for a deferment. Throughout the repayment period and until a loan or deferment is granted, you will need to continue to make payments.

After your student loan is no longer in default, you should obtain a copy of your credit report.

If there is still an entry indicating that your loan is in default status, you may want to file a dispute with the credit bureau.

After you make 12 consecutive payments, you are entitled to have the default status removed from your credit report. Attach a copy of any documentation you have proving that your loan is no longer in default. The credit bureau must

investigate within 30 days and must remove derogatory information from your credit report about your student loan that is inaccurate.

Defaulting on your student loans is serious business. Lenders and the Department of Education spend significant resources trying to locate people who have loans that have gone into default.

If you are given an opportunity to repay your debt and remove the default status, you should make sure you make each and every payment exactly according to the terms the lender has given you. Otherwise, you will have squandered your chance to get rid of the default.

After you make 12 consecutive payments, you are entitled to have the default status removed from your credit report.



About Myvesta...

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