

## The Comprehensive eBook

Walk away from your student loans.

**How to** guide for eliminating your student loan

# Walk Away From Your Student Loans

The comprehensive How To guide for eliminating your student loan

## Introduction

The current economic climate has created a situation where many students are faced with the difficult position of being unable to repay their student loans.

Students who attended "for profit" schools are more likely to default on their loans than those who attended regular institutions. In fact, the amount of debt incurred by students surpasses all debt incurred from credit cards in the USA.

The important thing to remember, when it comes to your student loan debt, is that you are not alone, and there are a number of viable and different options available for students to use as they attempt to repay their outstanding student loans.

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Currently, graduates being unable to attain employment after graduation, is one of the major reasons for student loan defaults. Another is students being unable to find work in their chosen field and being forced to take low paying jobs while they look for work. Many students are faced with difficult choices once their borrower grace periods have expired.

In this ebook we want to help you explore all options that are available, thereby enabling you to make an informed choice about the future of your loans, and how different actions will affect you and your credit score. Protecting your credit score will be of primary importance as you review the options outlined in this ebook.

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Having access to information, regarding the different choices available to you, will help to empower you to do what is best for you, your family and your future. We've attempted to make the information as simple as possible to understand, as well as outlining the consequences of the different choices.

At the end you will know what is the right path to take with regard to your outstanding student loans when it comes to repayment or default.

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## Getting Started

Now that you have finished school, and the grace period has past for loan repayment, there are a number of things you need to do in order to make the best decision for the repayment of your student loans.

You need to be aware of the consequences of dropping out of school or allowing your enrollment to drop below half time.

Some of the things you will need to understand are:

- assessing what type of loan you have
- what was the total disbursed amounts to you
- what is the current outstanding balance of your loan/loans
- the interest rate you are paying, and
- the current total amount of your loan that needs to be repaid

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The government provides an online website that will help you to determine these factors. The National Student Loan Data System can be accessed at this URL, [http://www.nslds.ed.gov/nslds\\_SA/](http://www.nslds.ed.gov/nslds_SA/) This site can also assist you if you do not know who is servicing your loan.

This database is comprised of information from learning institutions, the Direct Loan programs, guaranty agencies and department programs of ED.

You can also utilize this site to help you when going through exit counseling. The entire focus of this site is to provide you with enough information that you will then be able to make an informed decision on how to handle the repayment process in a way that benefits you the most.

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## Exit Counseling

Graduating students are normally asked to attend exit counseling. This is basically for students with federal student loans. At these sessions you will go over all the options available when it comes to the different repayment plans.

Before attending this counseling, students should do some preparation ahead of time. This way you are more likely to make the right choices for you and your future.

Schools that are members of the Federal Direct Loan Program, also referred to as FDLP, will have 4 plans from which to choose, with regard to federal loan repayments.

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A standard repayment plan will have your loans being repaid using a fixed payment amount. This payment period is usually over a 10 year period. The monthly payments will always be the same unless you choose to overpay your account.

Should you choose the graduated repayment plan then you can expect your payments to begin with a small amount and increase gradually every 2 years. This happens continually over the 10 year term of the loan. This type of plan allows students, who are new to the work force, to increase their payments as their salaries increase over the years.

Students can also choose an extended repayment plan. This plan will allow for the loans to be repaid over a 25 year period. This make the payments very affordable. One needs to consider carefully the amount of interest that will be paid with this type of plan. The amount of interest over 25 years will add up to a significant amount of money.



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The income based repayment plan currently allows for payment to be no more than 15% of your annual income. Single grads who will be making less than \$20,000 yearly are likely to be assessed at \$0. This type of plan also allows for students, who have made payments on time over a period of 25 years, to have their loans forgiven automatically.

Currently this plan is expected to see significant changes in the year 2014. These changes and how they will affect you can be reviewed here:

<http://edlabor.house.gov/blog/2010/03/education-reconciliation-landm.shtml>

These changes are known as the Student Aid and Fiscal Responsibility Act. Students living in different states will be able to check how it will change for them in their state.

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## DIFFERENT TYPES OF LOANS

The type of loan you have will be a determining factor in understanding the rules that will apply to you. Basically there are two types of loans; private loans and federal loans. Federal loans normally are provided by either the government or a participating bank.

### Federal Loans

FFEL loans ( Federal Family Education Loans) are guaranteed by the government and have been given to students by private lenders. This type of loan offers a guarantee to the lender, that should you default, they will be reimbursed.

Federal Direct Loans are offered by the federal. Federal loans may also be issued by schools. An example of this type of loan is a Perkins loan.

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## Private Loans

Private loans are often used to make up the difference in costs that are not covered by federal funding. With costs for school constantly rising, this alternative is being used more often than in the past. Normally a student will exhaust all other avenues before pursuing this one.

These loans are not as affordable as federal loans. With fixed rates of interest and a lack of flexible options for repayment, these should be used as a last resort for any student.

Some colleges, financial institutions and banks will make these loans to students with no guarantees from the federal government. They are considered high risk loans, and as such, normally carry a higher rate of interest and stricter repayment schedules. These are often the hardest type of loan for a student to repay.

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## Conclusion

Once you have determined the type of loan you have you can then proceed to make an informed decision regarding your repayment of the loan.

The next chapter will deal with these options. The information will help you to make the best decision for you on how to proceed with repayment of all types of loans.

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## **Student Loan Repayment Options**

### **Repayment Options For Federal and Private Loans**

Federal student loans can be repaid at any time. This includes the time you are currently enrolled in school. The first thing to understand is that most federal student loans have an initial grace period before you are required to start making payments. These loans include:

#### **Stafford Loans and Perkins Loans**

Once you cease to be considered a student your grace period will begin. Stafford loans, which are one of the most common type of student loan, will have payment starting within 6 months of graduating, dropping to part time status or leaving the learning institution.

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Perkins loans allow for a 9 month grace period. This longer grace period makes them one of the most popular loan plans in the marketplace.

PLUS loans as well as private loans for students will have no grace period and payment is required to begin immediately upon receiving notification that you have been approved.

Grace periods allow students to assess their situation and research which repayment system is best for their situation. Grace periods also allow students to enter the work force, get established and work out a budget for their student loan repayment.

Perkins Loans will be repaid over a period of 10 years and must be made in equal payments. PLUS and Stafford loans allow for more flexible repayment options. You can chose a repayment option that spans up to 25 years or one that is contingent on your level of income.

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Private student loans repayment plans will depend on what you agreed to with the lending institution you chose.

## TYPES OF REPAYMENT PLANS

### Standard Repayment Plans

One of the most common repayment plans is the "Standard Repayment Plan". This plan is normally offered by the company that loaned you the funds for school. With this plan you can extend payments over a ten year period. You will have higher payments per month but you will pay less interest. This ensures that your payments will be far lower than other plans. Students also need to take into consideration the amount of interest associated with these loans over a 10 year period. Although rates are low, total interest paid is not.

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## **Graduated Repayment Plan**

With this type of plan, your payments will be low in the beginning, but during the term of the repayment period you will see the amount increase. This normally occurs every 2 years and can be a viable option when you start working, when your wages are low but are expected to increase over the years with more experience and time in the workplace.

## **Extended Repayment Plan**

With this plan you will be able to make payments over a 25 year period as long as the balance owing is more than \$30,000. You can also use this plan in conjunction with a graduated payment plan. This can help to decrease the amount of your payments even more. The downside to this is that over the long term this will mean an increase in your borrowing costs.



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## Income Based Repayment Plan

If your income bracket is:

- low
- unstable
- income sensitive
- income contingent

then this type of repayment plan may be best suited to your needs. When you see an increase in your income the payments will rise at the same time. Every year your income will be re-evaluated and your payments will be adjusted at that time.

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Factors that can affect the payment amounts can be:

- size of your household
- size of your loan
- the amount of your annual income

## **Direct Loan Income Contingent Repayment Plan**

Federal loans, with the exception of a PLUS loan, allow for choosing of a repayment plan that is income contingent. The total you will pay will be capped at 20% of your discretionary income.

This is calculated by taking your gross income, on an annual basis, less the amount decreed as poverty level for you household. This is also dependent on that size of a household. For students with young families this is often a good option and should be considered carefully.

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Students with a low income can actually see no payments at all. It's also feasible that your payments could be lower than the amount of interest owed. The drawback to this is, that over time, the size of the loan will grow accordingly.

If in 25 years the loan is still outstanding, no matter what the remaining balance is, the loan will be canceled. One downside to this is that the IRS will then look at the canceled debt as part of your income in the year it's canceled. One needs to plan accordingly for this event.

## **FFEL Income Sensitive Repayment Plan**

Students who have FFEL loans can qualify to have an "income sensitive" repayment option. Your gross monthly income will be assessed and your payments will then be based on that estimate. With this type of loan, the interest that is accruing must be covered in the payment.

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## Consolidating Your Loans

This is a wise option if you are having problems making numerous different payments. This type of loan allows you to bundle all loans into one, with the result being one monthly payment. There are still a number of things to consider before going this route.

## Rates Of Interest

Loans that were secured before July 1, 2006 often carry a higher interest rate when compared to today's rates. Loans that were secured after this time will have a fixed rate of 6.8% so it's important to research current loan rates, in order to assess if consolidation is the best route for you to take, given your current circumstances.

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Consolidating all loans into one is also a way to extend your repayment time frame. Each time you consolidate loans the term of the loan helps to extend the repayment time frame.

This will lower the monthly payments for you, but it does have the drawback that you will be paying much more in interest with the extended time frame. Consolidating your student loans can be a practical way for students to lump all loans together, with the end result being one monthly payment that will reduce your payments each month.

Some students have seen their payments drop by as much as 50%. This amount is based on lower interest rates that may be available to some students, as well as extending the term of the loan over a longer period of time. Although using the longer term will mean more interest on the loan over time, it is offset by giving students a significantly reduced payment plan.

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Reducing your payment amounts can have other benefits as well. A student who can now afford to make regular payments, and make them on time each month, will see a significant boost to their credit rating.

When consolidating you can also combine your student loans with any outstanding private loans you have. This is something that needs to be considered carefully as certain benefits could be lost that are available with a federal consolidation. Students also need to be wary of any private lenders that ask for an upfront fee before consolidating the loans.

## **Consolidating Loans With A Private Institution**

If you choose to consolidate your current loans with a private institution you need to be aware of the federal rights that you will lose.

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These include:

- forbearance
- deferment
- cancellation
- repayment plans that are affordable
- consolidation plans for federal loans normally have better interest rates

It is important to remember that you can only consolidate one time.

Therefore it's imperative that you research the consolidation process thoroughly so that you can make a decision on the best consolidation plan for your circumstances.

## Other Options To Consider

There are three other options you can consider if your financial situation is such that it's impossible for you to make any payments. In some cases you can temporarily suspend payments or even get permanent relief.

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The options for you to consider are:

- using programs such as forbearance or deferment
- consider a loan cancellation program to eliminate the debt
- filing for bankruptcy in order to discharge the loan

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## **Deferment**

When you defer a student loan you'll be allowed to stop all payments for a predetermined period of time. Consider this if you are experiencing financial hardship, you are unemployed or have returned to school.

You will have to qualify for a deferment. The lending institution that holds your loan will be able to provide you with the proper forms that will help you to qualify for the deferment.



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## Forbearance

This process is a bit more complicated, but is also a viable option. The lending institution must give you permission to forgo payments for a predetermined time period.

During this time period you will still be accruing interest, and this must be taken into consideration when making a decision on the best option for your circumstances. If your application is accepted then forbearance will be put in place for a period of one year.

You may be granted for reasons such as:

- personal problems that are unexpected
- personal health issues
- your inability to repay the loan within the term stated
- payments are more than 20% of your monthly income

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Your first step is to contact the lending institution in person if possible, and explain the details of your situation. With their guidance you then ask for a forbearance and they will provide the necessary forms for you to complete and submit.

## **Differences Between Deferment and Forbearance & Default**

It is important for students to understand the difference between forbearance and deferment. Basically both of these instruments will have the same end result. Your loan payments will be stopped for a specified period of time.

With a deferment, payments stop and interest does not accumulate. With forbearance, interest will continue to accumulate, but payments will temporarily stop. The end result is that forbearance will cost you more money due to interest accumulating over time.

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If your current rate of interest is 5%, and you're not paying your loan but are using the option of forbearance, interest will accumulate. This unpaid interest will be added to your principal amount of the loan. Over time you will end up paying interest on the interest. This is not a good option and should be avoided if possible.

Default is when you fail to repay your loan in accordance with the terms you agreed to in a [promissory note](#). The minute you miss payments the loan can then be considered to be in default. It's important to understand the consequences of allowing this to happen.

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## Filing For Bankruptcy To Discharge Your Student Loans

Although unusual, there are times when a student may be able to discharge their loans under bankruptcy. There are standards that must be met to satisfy the court that attempting to repay the loan would create extreme hardship for you and your family.

In this case the courts will look at a number of different factors to help them determine if they will grant relief. Some of the things they will look at are:

- the estimated length of time you may experience financial difficulties
- your history of attempting to repay the debts
- your complete financial picture including current income levels and current expenses

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If you do decide to pursue this option you will need the help and guidance of a professional bankruptcy attorney. They will guide you through all the paperwork and present your case to the courts.

Proving hardship in order to file for bankruptcy is one of the most difficult options. It is rare that this option can be used, but for some it is a possibility.

## **New Legislation – Future Legislation**

As of September 15, 2010, the House Judiciary Subcommittee on Commercial and Administrative Law began a process that will reverse the wording of the 2005 bankruptcy law where it is related to student loan debt that is private. This was approved on a 6-3 party line vote H.R. 5043, the Private Student Loan Bankruptcy Fairness Act.

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The National Association of Consumer Bankruptcy Attorneys has been drafting and supporting the action. Under the bill, student loans issued by a private lender will again be dischargeable in bankruptcy. The bill can be viewed at <http://thomas.loc.gov> Simply insert the bill number or search.

## **When Bankruptcy Is Not An Option**

### **Filing For Chapter 13**

When bankruptcy is not an option, consider consolidating your student loans in with other loans that you already have outstanding. When using this option you will be able to repay your outstanding debts over a 3 to 5 year period. This can result in a lowering of your monthly payments and will immediately stop any collection actions against you.

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With this type of bankruptcy you need to show proof of reliable stable income along with income that is deemed disposable. Disposable income is that which is left over at the end of every month, after you have paid all your normal living expenses.

Currently there is a ceiling for the amount of secured debt as well as a ceiling for unsecured debt. An experienced bankruptcy attorney can advise you of the current amounts, as they change in accordance with the consumer price index. Although not a perfect solution, it will help to reduce your debt load, but any student debt remaining at the end of the term, will still be owed.

One other advantage of this action is that the courts can determine exactly what you owe and ensure that your rights were not violated. This is a binding decision that all lenders involved in your loans will have to follow, no matter what the period of repayment is for your loans.

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## Other Repayment Alternatives

If you are still looking for other alternatives, a credit counselor may be able to help. They can approach your lenders to work out a repayment plan that will enable you to repay your loans. The period of time can be extended, especially if they are willing to consider graduated payment plans, that over time, will increase the size of your payments as your career gets started and your earning potential increases.

In some cases you may find that your lenders will even consider allowing interest to accrue with no payments being made, until you are in a position with your career and financial circumstances, that you can then afford to make the payments. This has often been a successful and viable option for students that will enter high paying careers.



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## **Credit Cards - Student Loans & Bankruptcy**

It may be possible to pay off your student loans with credit cards and then declare bankruptcy. In many cases you cannot have any cash advances on your credit cards less than 90 days before filing for bankruptcy.

If you use this option it is important to consult with a bankruptcy lawyer as the credit companies may be able to challenge the bankruptcy in court if it can be proved that your intent was to use their credit card to pay off loans and then declare bankruptcy. This could be viewed as fraudulent and the courts could deny this debt in a bankruptcy proceeding.

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## Cancellation of a Student Loan

In some circumstances it may be possible to have your student loan canceled. As it implies, this would mean that you do not have to pay the loan. This is not an easy task to accomplish, and the conditions for doing this are very strict, but it is a possibility for some students.

In some cases, the government will give back to you the payments you have currently made and work toward erasing all damage to your credit score. It's also possible that a portion of the loan may be canceled and not the entire amount.

## Canceling & Deferring a Student Loan

Some students who are unable to repay their loans immediately may choose an option called a "student loan deferment."

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The type of deferment you choose will depend on:

- the type of loan you have
- the amount of the outstanding balance
- your financial health
- your employment or unemployment status

When you are accepted for deferment you can expect to make no payments whatsoever. The amount of time you will be allowed to defer payments will depend on the above factors.

A deferment simply means that once the approved time frame has expired, you will then be expected to start payments again.

There are basically 5 different types of deferment.

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The following conditions may qualify your for one of the following:

## **Borrower's Death**

Should a student who is no longer in school die, then the executor of that students estate can ask for any type of federal student loan to be canceled outright.

## **Disability**

Students can qualify for loan deferments when:

- they are in rehab training, in a program that is approved
- unable to work because of illness or physical injury
- primary caregiver for disabled spouse or dependent

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Students can qualify for a disability deferments for Federal Stafford Supplemental, Consolidation Loans and PLUS loans if they:

- are injured or ill for a minimum of 60 days and cannot attend school or remain employed
- became disabled after receiving their loan
- have complications associated with pregnancy
- have a dependent or a spouse who needs full time care for a minimum of 90 days

Qualifying for a rehabilitation deferment will require that the student:

- be in a program that is recognized or licensed by the state
- program must provide rehab for alcohol or drug abuse
- provide mental health care

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The program should:

- have individual plans set out in written form
- have start and end dates for the time of rehab
- requires a full time commitment in order to be an effective rehab plan

## Unemployment

Federal loans can be deferred if you are currently looking for work but have been unemployed for a period of time.

Students who are unemployed and have current outstanding loans may apply for an Unemployment Deferment. Loans can be deferred for as long as 3 years after leaving school. After this time, the loan is no longer deferred and payments will resume.

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You can expect to complete, on a bi-annual basis, an application for deferment, to ensure you still qualify.

Qualification for this type of deferment will required you :

- to show that your loan is a PLUS, Supplemental or a Federal Stafford
- to be actively seeking employment in the United States
- show proof that you are registered with employment agencies
- show proof of job searches when reapplying every 6 months

## **Economic Hardship**

If your student loan was obtained after June 30, 1993 it may be possible for you to defer payments for as long as 3 years if you can prove economic hardship.

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If you are receiving any kind of public assistance such as welfare or SSI then you automatically qualify for a deferment.

Those who do not receive public benefits must then qualify for deferment based on a number of different factors. This factors will include:

- your current family income
- the current minimum wage
- the current federal level of poverty, and
- the amount of your federal student loan disbursements, yearly or monthly
- Expect to provide complete documentation of any income you have.

Documentation can be pay stubs or information provided by your employer.



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## Returning To A Learning Institution

Payments can be deferred should you enroll again in school. The enrollment must be a minimum of half-time study. You will need to provide proof of enrollment in order to qualify. This will need to be certified by the learning institution you are attending either full time or half-time. You must also have monies owing and be outstanding on a PLUS, consolidation loan or a Federal Stafford loan.

## Uniformed & Government Service

Those who join the U.S.A. Military, the USA Public Health Service or the National Oceanic and Atmospheric Corps, may be able to cancel their student loans, or at the very least, defer them to a future time. You need to check with the government agency you join, in order to know your rights with regard to your student loans.

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## Teaching & Other Professions Serving The Needy

Should you decide to become a teacher in an area with a needy population you may be able to defer your loans or have them completely canceled. Needy can include disabled students or those in a very low income bracket. This includes other professions besides teaching.

Other careers that serve the needy may also qualify for cancellation of student loans. These can include, but are not exclusively limited to, the Peace Corps or volunteering with certain organizations assisting people in low income brackets in your community.

Health care professionals such as doctors and nurses may be able to cancel or defer loan payments during a residency program.

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## Closed Schools

Those who have received a Perkins Loan or FFEL loan after January 1, 1986 and were unable to complete their education due to the school closing, may qualify for a "Closed School Discharge". If you did not complete your course of study by transferring credits, hours earned or a teach-out at another institution, then you may qualify for a discharge of your loan.

If you are granted a discharge you will receive a refund for any payments you may have made in the past. The agency that discharges your loan will also ensure that credit reporting agencies know that the loan was discharged and any credit history that resulted from non-payment of the loan will be removed from your record. You will also be entitled to apply for federal financial aid in the future.

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## Paying Student Loans

One of the most important things to do with any student loan is to:

- know your balance at all times
- know the current status of each loan at all times
- know who each lender is for each loan
- keep all billing statements
- keep all original paperwork, with the above in an organized folder

Knowing where you stand with your loans, at all times, allows you to be aware of any opportunities that may arise where changing your loans or consolidating them may be of benefit.

It's important to be in touch with your loan officer regularly. Always be sure to keep them updated on any change in your address, phone number as well as email information. Be sure to keep everything your lender sends to you.

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Open all correspondence so that you are always aware of the status of your situation.

Should you be in a position where you are unable to make your payments, contact your lender immediately. Your lending institution will work with you to help resolve any problems you may be experiencing. In the case of collection agencies, make sure you understand the rules they must follow and are not allowed to violate. Too often they harass people in ways that violate state laws.

Ignoring notices from a lending institution will not make the problem go away. A direct approach to financial problems is always best.

The last thing you want to have happen is a default. Defaulting on a loan can cause more problems for you and for a longer period of time.

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## Grace Periods

It is important to understand the grace period for your loans. These can be for different amounts of time, that become effective after you leave school. Read all paperwork associated with your loan so that you have a good working knowledge of what's required from you. The number of students who miss their first payment is astounding; all because they did not read their loan agreements.

## Living Frugally

Most students who have graduated are used to living as frugally as possible. Just because you have finished school and are now in the workforce, don't stop. Keep your expenses as low as possible and use extra money to pay down your loans. If you've been used to living in a small apartment, keep it. Keep using the bus instead of going out and getting a car. The money saved on the car, gas and upkeep, can make a serious dent in your student loans.

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The more you pay down your loans the sooner you'll be able to start adjusting your lifestyle to one more suitable to your needs. Even if your student loan has a grace period, start paying it down as soon as possible. When the grace period is over you'll have less to pay.

## Income Tax Credits

Many students will at the end of the year have tax credits coming to them. Take any monies you get from the IRS and use it to pay down your loan. Make sure to consult with a credit counselor or another professional who can ensure that you are using all the tax credits coming to you. This is especially true for students who are not used to filing tax returns. There are numerous credits that you may be able to use to help ensure that your refund will be as high as possible.

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## Student Loan Interest

It's important to understand the interest on your student loans. Most loans that students have acquired, accrue interest under a formula known as "Simplified Daily Interest Formula". With these loans the interest is calculated on the principal only. It is not calculated on accrued interest, such as with credit cards.

Never wait til the end of a month or beginning, to make a payment. Since interest is calculated on a daily basis the sooner you make your payment, the less you will be paying.

Although it may seem small, over the years this can add up to a significant amount of money. This is also why you may see your payment amounts fluctuate every month. Not all months are created equal.



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A month with 28 days will have a different payment amount than a month with 31 days. This can also affect when the interest is calculated. Should your payment fall due on a weekend, the interest will not be calculated until the next business day and that too can add more interest to your loan.

Whatever you do, do not accumulate money to make a lump sum payment later. The sooner you pay any money on your account, the less the next payment will be.

If you've suddenly come into some extra money, pay it on your loan. If you work part time or at odd jobs for extra cash, pay it on the loan. The more you do this the faster your loans will disappear.

This is not to say you should deprive yourself of everything. Every once in awhile it's a good idea to reward yourself. It makes saving money and paying your loan easier for you.

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## Refinancing

If your loans are creating a burden you can no longer handle, then you may want to look at refinancing the loans. This is an excellent way to reduce your monthly payments to one that is more manageable. Nearly all banks offer student loan consolidation programs.

First there are a number of things to consider before taking this route.

Refinancing federal loans separately from a private loan. Federal student loans come with a much more favorable interest rate than what most banks can offer in today's market.

A private student loan is basically considered a personal loan. In this scenario your private lender has made the assumption that once out of school, your income would rise and the loan would be affordable for you.

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Putting the two loans together will more often than not, result in you paying a higher interest rate. This is why it is wiser to refinance them separately and get the benefit of the saving.

Another factor to consider is how your credit score will affect your ability to refinance. The interest rate you pay is partially dependent on how good your credit score is when you apply. Before you apply to refinance your loans be sure to check your credit score to ensure it's the highest it can be and fix any problems that may be part of your record.

Make sure that any loans you are attempting to refinance be considered non "in-school" loans. You may find that some lenders have a number of different requirements such as a minimum balance. Check different lenders, before applying, to see which will offer you the best opportunity.

With loan rates currently at one of their lowest points in history, now is an excellent time to consider refinancing your student loan.

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## Student Debt & How It Affects You

How you choose to handle your student debt can have lifelong consequences. It can have a positive or negative effect on your future credit rating and can influence your ability to borrow in the years to come. The higher your student debt load ratio the more negative your credit rating will be. This can have a negative impact on your ability to apply for future loans. Reducing your monthly payments can cause your credit score to be looked at more favorably as it is part of how credit agencies rate your debt burden.

If you default on any of your student loans, the balance will become due immediately. Once this happens you lose your ability to implement other options such as deferment, forbearance and delaying payments.

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Another problem with defaulting on your student debt is that it will immediately go into the hands of a collection agency. Once this happens, your wages can be garnished and any federal tax returns you may have coming, will be seized. If you are applying for any other kind of student loan, this will have a negative consequence when it comes to being eligible.

## Rehabilitating Your Defaulted Loans

There are a number of reasons you may want to consider rehabilitating your defaulted student loans. This is a remedy all students should consider. The advantages are:

- the first main advantage is it immediately takes you out of default status
- your loan holder will immediately report your status to credit bureaus as not being in default
- the benefits that were available to you before the default will be restored.

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- you will be to use forbearance and deferment options again.
- any garnishment of wages will immediately stop
- all tax refunds from the IRS will be restored

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## **Rehabilitation for Direct Loan Borrowers, FFEL Borrowers and Perkins Loan Borrowers**

First you need to make a minimum of 9 payments, within 20 days of when they are due over the next 10 months. These payments are made to the Department of Education. You cannot include wage garnishments or any monies derived from litigation.

When you have fulfilled the above obligations your loan will then be handed over to the Direct Loan Servicing center.

The key to all of these loans, are the payments being voluntary and made on time over a period of 9 months. If you have defaulted, these options give you a second chance to rehabilitate your loans and your credit record.

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## Conclusion

It's important to understand your type of student loan repayment plan, and all it entails. Each loan is different and can benefit you in different ways.

Know and understand all payment plans available to you at the end of your schooling. Each loan plan offers you different payment options and students need to talk full advantage of these options.

If you're in trouble when it comes to repayments, see a credit counselor that specializes in your type of situation. They are there to help you.

If you think your problems are irreversible see a bankruptcy lawyer. Let them determine if the situation is hopeless. Most often there are other options that will help you and save your credit rating.



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## Frequently Asked Questions

### **Q. I cannot pay my loan. What should I do?**

A. The first thing you should do is contact your lender, explain your situation and inform them you are unable to pay. They may suggest repayment options for you that will help you get over a difficult time, or suggest other long term solutions.

### **Q. What does it mean to default on my loan?**

A. After 270 days of being delinquent, the lender can make a claim with the guarantor of your loan stating that you are not making your scheduled payments and have therefore failed to meet the terms of your loan agreement. The guarantor will then start a process to pay any monies owing to your lender and will then start contacting you to collect on the loan. Through the federal government they will have a number of options in which to do this.

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## **Q. What is "claim pending"?**

Your guarantor has not yet paid your lender. This means you may still be able to stop a default claim if you act quickly. A default will open up other options for you to pay the loan.

## **Q. I don't understand deferment and the types available.**

A. Simply put, a deferment gives you the opportunity to postpone or stop paying the loan. In total there are nine deferment options open to some students if they meet the eligibility requirements. Your lender can give you further information about deferments and provide you with any necessary forms that may be applicable to your situation.

## **Q. I don't understand forbearance and how it differs from deferment.**

A. Forbearance is where your lender allows you to "temporarily" stop your payments. They may also approve reduced payments or let you delay making your payments. It is completely up to the lender to decide to allow this and what part they will allow. It's important to note that the interest on the monies owed will not stop and will continue to accrue over time. The interest will then become part of the capital and you'll be paying interest on the interest.

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## **Q. What is interest capitalization and how does it affect me?**

When you have stopped making payments, yet the interest keeps being added, you will over time, be accruing interest. As this starts to increase the total amount of the loan, it will be considered part of the principal and you'll start paying interest on it.

## **Q. What do I do when my lender doesn't receive my payment.**

A. This is not an unusual situation and one usually does not find out about it until they receive a notice from the lender. If this happens, contact your lender immediately. Tell them the amount you sent, approximate date of when it was sent and the check number. Check with your bank to make sure that the check did not clear. If it cleared, copy it front and back and forward all correspondence to your lender immediately.

## **Q. Why am I being billed while in school. My lender says I am delinquent.**

A. This can happen because you changed schools, you are still attending school past your graduation date or your in-school status dropped below half time. Providing proof of your current status to your lender will remedy the situation. Any time there is a change in your status you should always notify your lender so that they can make adjustments to your account, ensuring it is always current. By doing this there should be never be any problems with your in-school status.

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### **Q. Why are my parents being billed for my loans while I am in school?**

A. A parent PLUS loan, for a dependent student, can trigger this unless the parent asks the lender for a deferment. The deferment should end six month after graduation or when the student is no longer attending at least half time. Anytime a student has a change in status the lender must be notified in order to keep their records up to date, and not initiate billing procedures before their normal start date.

### **Q. Can I change the day of the month my payment is due?**

A. For the most part this is not allowed. Students can make payments at anytime though, thereby resolving this issue.

### **Q. Can I prepay my loans. Is there any penalty associated with doing this?**

A. Loans can be prepaid at any time whether you are in school or out of school. This helps to reduce interest and there is no penalty associated with prepaying the loan.

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## **Q. What is rehabilitation?**

A. If your student loan is in default or delinquent you may be able to rehabilitate the loan. In most cases you will be required to make 9 monthly payments on time consecutively, before your account can be deemed current. At this time your lending institution will report to the different credit bureaus that your loan is now current and no longer in default. This can also mean that you will be about to regain financial aid as well as cancellation benefits and deferment benefits. If you choose to use this option be sure to consult with your lending institution.

## **Q. Why do I still receive bills after I have consolidated my loan?**

A. As with any organization it simply takes a bit of time to process all records. Be sure that all the loans you consolidated were eligible for consolidation. Should you still receive bills contact the organization to get clarification as soon as possible.