Contents

Chapter 1: Entrance Counseling Information

FACT SHEET 1.1 Federal Student Loans in a Nutshell
FACT SHEET 1.2 Interest on Your Loan
FACT SHEET 1.3 How Much Should You Borrow?
FACT SHEET 1.4 Using the Master Promissory Note for Multiple Loans
FACT SHEET 1.5 Budgeting While You're in School
FACT SHEET 1.6 Deferment, Forbearance, Cancellation
FACT SHEET 1.7 How Your Loan will be Paid
FACT SHEET 1.8 Repay Your Loan—Don't Default!
FACT SHEET 1.9 Review & Notes

Chapter 2: Exit Counseling Information

FACT SHEET 2.1 Repayment in a Nutshell
FACT SHEET 2.2 Starting the Clock
FACT SHEET 2.3 Choosing a Repayment Plan
FACT SHEET 2.4 Capitalization of Interest
FACT SHEET 2.5 Living on a Budget
FACT SHEET 2.6 Repay Your Loan—Don't Default!
FACT SHEET 2.7 Deferments and Cancellation (List)

Chapter 3: Grace Periods, Deferment, & Forbearance in Detail

FACT SHEET 3.1 Grace Period after Leaving School
FACT SHEET 3.2 Getting a Deferment or Forbearance
FACT SHEET 3.3 Educational Deferments
FACT SHEET 3.4 Unemployment/Economic Hardship Deferments
FACT SHEET 3.5 Deferments Prior to July 1993
FACT SHEET 3.6 Types of Forbearance
FACT SHEET 3.7 Repaying a PLUS Loan (Parents)

Chapter 4: Cancellation (Discharge) in Detail

FACT SHEET 4.1 Low-Income School Teacher Cancellation
FACT SHEET 4.2 Closed School and Other Consumer Cancellations
FACT SHEET 4.3 Cancellations for Bankruptcy, Disability, and Death
FACT SHEET 4.4 Cancellation for Child Care Providers

Chapter 5: Default Issues in Detail

FACT SHEET 5.1 What Happens When a Loan Goes into Default
FACT SHEET 5.2 Resolving Your Default
FACT SHEET 5.3 Reference: Special Default Cases

Chapter 6: Loan Consolidation in Detail

FACT SHEET 6.1 Federal Consolidation Loans in a Nutshell
FACT SHEET 6.2 Terms and Conditions
FACT SHEET 6.3 Consolidation Issues: Defaulted loans, Joint Consolidation
FACT SHEET 6.4 Consolidation Issues: Perkins, PLUS, and Older Loans

CHAPTER 1

Entrance Counseling Information

Students entering college often must make important financial decisions with relatively little prior experience with legal obligations and promissory notes.

This chapter will help you to explain repayment obligations and options. The following pages are written for the borrower, and will provide most of the information required for entrance counseling. Of course, counseling can also be done over the Web—see Volume 8, Chapter 5 for more information about counseling requirements.

You may wish to customize some of these fact sheets to make them more relevant to your school's loan procedures. In particular, you might want to use your own examples for "Budgeting while you're in school" and "How your loan will be paid." If your school doesn't use the multi-year feature of the Master Promissory Note, you need not provide the student with that fact sheet.

If you have copies of the "Borrower's Rights and Responsibilities" statement and/or an estimated repayment plan, it's a good idea to go over this information with your students and point out some of the key terms and conditions of the loan.

Many schools treat loan counseling as an ongoing process as the student progresses through school and makes decisions about additional borrowing and possible postgraduate study.

Elements of entrance counseling not provided in these materials

- ▲ The student should receive an estimate of average indebtedness and monthly payments. This can be provided by the lender.
- ▲ You can provide information about other sources of aid, such as aid from your state agency or academic scholarships.
- ▲ You can review school and federal policies affecting withdrawals, including satisfactory progress, refunds, and the "Return of Funds" to the federal programs.

Best Practices in Default Management

from National Default Prevention Day

- *During orientation at the beginning of a term, give loan counseling materials to parents as well as students; invite parents to attend loan counseling sessions.*

- *Provide counseling to students each year, prior to loan disbursements.*

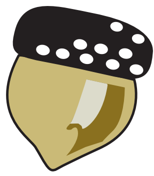
- *Offer one-on-one counseling covering estimated college costs, in-school budgeting, and how much to borrow based on expected salary and monthly loan payments.*

- *Collect new references for your student borrowers each fall and spring at registration—make sure school staff are alert to the opportunity to update address information when contacted by students or parents.*

- *Use e:mail to send newsletters to borrowers and parents each semester.*

- *Monitor attendance to identify potential unofficial withdrawals and counsel students.*

- *Hold debt management seminars in the community for parents and students.*



FEDERAL STUDENT LOANS IN A NUTSHELL

Loans→ from private lenders, guaranteed by the government

The U.S. Department of Education sponsors Stafford and PLUS loans (for parents) to help students with college costs. The money for your loan will come from a bank, credit union, or other lending institution.. Several thousand lenders participate in the Stafford and PLUS programs. You can check with a bank that you know to see if they make these loans, or you can check with the financial aid office at your school for some suggestions.

Many lenders offer their own student loans. You can take out a Stafford or PLUS loan and still take out a student loan from a bank if you need more money. Stafford and PLUS loans may be easier for you to get, even if you don't have a credit history yet, because the government guarantees the lender that the loan will be repaid. Stafford and PLUS loans also have in-school deferment periods when you don't have to repay the loan.

→ subsidized Stafford loans

Some Stafford loans have another advantage—if your income is low enough when you apply for aid, you may get a subsidized loan. The government pays the interest on these loans when you're in school or in a deferment. See the next page for more information on these loans, which are called *subsidized* Stafford loans.

→ who is eligible

To get a Stafford loan, you have to meet most of the basic eligibility requirements for the SFA programs. The most important of these requirements are:

- ▲ You must be a citizen or permanent resident of the United States.
- ▲ You must have a high school diploma or equivalent, or pass a test showing that you have the ability to benefit from the educational program.
- ▲ You must be enrolled at least half time at a school that participates in these loan programs.

→ how much can I borrow?

These are *maximum amounts*—depending on your financial need and program of study you may not get the full maximum amount. Even if you are eligible for the maximum loan amount, consider whether you need to borrow the full amount.

	Dependent student	Independent student
First year:	$2,625	$6,625
Second year:	$3,500	$7,500
Third year:	$5,500	$10,500
Fourth year:	$5,500	$10,500
Total undergraduate debt:	$23,000	$46,000

→ what are my repayment options?

You can choose the **standard repayment plan** (10 years), or **graduated** or **income-sensitive** repayment. If you have over $30,000 in Stafford loans, you can get an **extended** repayment plan. A further option is to **consolidate** your loans with one of your lenders. In each of these cases, bear in mind that while a longer repayment period reduces your monthly payments, it will increase the total interest that you pay on the loan.

→ what can I do if I have trouble making payments?

If you have trouble repaying your loans because you have returned to school, are unemployed, or have a very low income, you may be able defer your loan payments. Stay in touch with your lender—your lender may be able to offer you a forbearance if you're having financial or other trouble.

INTEREST ON YOUR LOAN

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

Repayment Estimators on the Web
http://mapping-your-future.org

Your loan has a **variable interest rate** that could change as often as once a year, but will never exceed 8.25 percent. The interest rate is recalculated each year on July 1, and the holder of your loan will notify you of the new rate for the coming year.

Stafford Loans are either subsidized or unsubsidized, and you can get both types of loans for the same enrollment period. With a **subsidized** Stafford loan, the federal government "subsidizes" the loan by paying the interest while you're going to school at least half-time, while you're in the 6-month grace period after you leave school, and during authorized periods of deferment. A subsidized Stafford loan is based on your financial need, as determined by your cost of attendance minus the EFC (Expected Family Contribution) on your Student Aid Report and any other aid you'll be getting. If you qualify for a subsidized loan less than the Stafford loan limit, you can borrow an additional amount in the form of an unsubsidized Stafford Loan.

An **unsubsidized** loan is easier to get because you can use it to replace your EFC—in effect, the EFC will not reduce the amount you can borrow. Interest accrues from the time the loan is disbursed until it is paid in full, including periods of deferment. The interest that accumulates while you're in school, in the grace period, or in a deferment will usually be **capitalized**—that is, the interest will be added to the principal amount of your loan and additional interest will be based upon the higher amount. You can reduce the amount of interest that you pay by paying the interest as it accrues each month while you're in school, grace, or deferment.

Subsidized vs. unsubsidized loan example

Subsidized: Janeane G. takes out a $2,625 Stafford Loan to attend a nine-month pharmacology program. The cost of the course is $3,000 and the school uses an estimate of $4,000 for her living expenses. Janeane has an EFC of 2,000, so her financial need is $5,000. Because of her financial need, the Stafford loan is subsidized. Because the loan is subsidized, the federal government pays the interest while she's in school and in the 6-month grace period. When the grace period ends and she begins repayment, her indebtedness is limited to the amount she originally borrowed, $2,625. At that point, she will begin to be charged for the interest that accrues on her loan.

Unsubsidized: If Janeane is an independent student, she can borrow up to $6,625 in Stafford Loans. However, no more than $2,625 of this amount can be subsidized. She borrows an additional $4,000 unsubsidized Stafford Loan. (Remember that an unsubsidized Stafford Loan can replace Janeane's EFC.)

Because of the interest that accrues on the unsubsidized loan while she's in school, Janeane will owe more than just the $4,000 loan principal when she enters repayment. For instance, if the interest rate was 6.5% during that period, approximately $217 in interest will accumulate between the last disbursement and the end of her 6-month grace period. If the lender "capitalizes" this interest, Janeane will owe $4,217 when she enters repayment.

If Janeane chooses to pay the interest (approximately $22) each month, she'll only owe the original $4,000 loan when she enters repayment. Because she paid the interest while she was in school rather than deferring the interest and capitalizing it, she'll end up paying less in total interest on the loan (for instance, at 6.5% interest, about $79 less).

The difference: Janeane is not charged for any interest on the subsidized loan while she's enrolled at least half-time, in the grace period after she leaves school, or in a period of deferment. Interest begins to accumulate on the unsubsidized loan as soon as each loan payment is made.

The lender will usually defer the interest on an unsubsidized loan while the borrower is in school, grace, or deferment. The interest will be added to her unsubsidized loan when she enters repayment. Janeane can tell her lender that she wants to pay the interest on the unsubsidized loan while she's in school, in the grace period, or in a deferment period. Paying the interest as it accrues will reduce the total interest she'll have to pay on the loan.

Longer programs: Keep in mind that the accumulated interest on an unsubsidized Stafford will be much greater if the loan is deferred for longer periods. For instance, an unsubsidized loan to a first-year student at a typical college will be accruing interest for approximately 4 years while the student is completing the program and in the grace period.

* For simplicity's sake, these examples assume that Janeane has chosen the standard repayment plan. Interest costs during extended, income-sensitive, and graduated repayment are usually greater.

HOW MUCH SHOULD YOU BORROW?

You shouldn't borrow more than you can repay, so you need to think about how much you are likely to earn and what your expenses will be when you get out of school. We'll provide a worksheet that helps you to organize this information.

Once you have an idea of what your available income will be, you'll need to look at the full cost of borrowing, including the interest that you will have to pay on your loan(s).

How much will you make?

A good source of information on jobs is the *Occupational Outlook Handbook*, published by the U.S. Department of Labor. It includes information about working conditions, educational requirements, and whether it's a growing career field or not. To give you a general idea of what's available, here are average or median salaries for some popular career choices:

Architect—$30-35,000	Lawyer —$50-60,000	Teacher (K-12)—$25,700
Technical writers—$39,200	Dental hygienist—$44,000	Registered nurse—$40,000

While actual salaries vary a great deal depending on location and experience in the field, you can use these figures as a starting point for your planning. To estimate your monthly salary, simply divide the annual salary by 12. (For instance, a registered nurse making $36,000 a year would have a monthly salary of $3,000.)

Occupational Outlook Handbook
http://stats.bls.gov/ocohome.htm

How much will you spend?

Let's take a look at your expenses, starting out by assuming that you spend 1/4 of your income on rent and another 1/4 goes to state and federal taxes.

Utilities	
Gas	______
Electricity	______
Telephone	______
Water	______
Transportation	
Bus/subway/taxi	______
Parking	______
Gas/car maintenance	______
Car payments	______
Car insurance	______
Food and personal	
Groceries	______
Clothes	______
Dining out	______
Laundry/dry cleaning	______
Entertainment	______
Health insurance, etc.	
TOTAL:	

Use the list to the left to estimate your other expenses. You should estimate on the high side, because there will always be some unexpected expenses. If you don't have a car or pay utilities, but expect to have those costs when you graduate, ask your parents or a friend for a good estimate.

To figure your fixed household expenses, then, divide your monthly income in half, and then subtract the total other expenses (from the chart).

Monthly Income
– Total Monthly Expense
= Available Income

So what's the answer?

Your available income will give you an idea of how much you can afford to pay each month towards your student loan debt. You need to have some income left over, however, for things like emergencies, savings for retirement, or other reasons.

As you look at the monthly payment amounts, keep in mind your available income, as you've calculated it on this page. For instance, if you estimate that your available income will be $150 a month, you would have little concern about borrowing $5,000 and making payments of $58 a month. However, you might think twice about borrowing $10,000 and making payments of $116 a month.

USING THE MASTER PROMISSORY NOTE FOR MULTIPLE LOANS

The Master Promissory Note simplifies your loan paperwork, because it can cover Stafford Loans for all of your years of study at a four-year school, as well as graduate study at the same school. If your lender doesn't change, you can even use your MPN at another school. But don't forget to submit a Renewal FAFSA every year—your financial aid information has to be updated annually.

Confirming that you want another loan

It's very important that you be aware of the amount of your loan indebtedness, so you will receive a notice before funds from a new loan are disbursed to your account. The notice will give you the opportunity to tell your school if you don't want to take out another loan. This notice may be combined with other information that the school must send you about your loan disbursement, so always read your loan notices carefully and keep good records.

When you have to get a new MPN

It's possible for your Master Promissory Note to expire. If no disbursements are made under that MPN in the 12 months after you signed it, you'll need to sign a new MPN. Your MPN is good for ten years, but if your studies continue for more than ten years you'll need to get a new one.

Also, you always have the option to decline the multi-year feature of the MPN, which means you would sign a separate promissory note for every loan you get. If your loan was made through a bank or other private lender, the cancellation request must be made to the lender in writing. The effective date is the date the lender receives your request. If you cancel the multi-year authorization on a loan that has not been completely disbursed, your school may make any remaining scheduled disbursements on the loan for that school year, unless you tell the school to cancel or adjust the disbursements.

Example of a multi-year MPN

As a simple example, let's say that Marie Curie signs a Master Promissory Note in her freshman year at the Romulan Institute of Technology. She gets a first Stafford Loan in the amount of $2,625, paid at the beginning of the fall and spring semesters. Next August, after she's filed the FAFSA for the coming school year, she receives a notice from the financial aid office stating that she is eligible for a full Stafford loan for $3,500. Marie decides to accept the loan, and the school disburses the first payment to her account for her fall charges.

In similar fashion, Marie accepts a $5,500 Stafford for her junior year. However, she receives an inheritance of several thousand dollars during the summer between her junior and senior years. To reduce her debt, she contacts Romulan's financial aid office and asks that the loan for her senior year be reduced to $2,000.

In this example, Marie has used one promissory note to borrow four loans for a total of $13,625. She accepts a $50,000/year job at the Rickenbacker Propulsion Laboratory and, after her grace period expires, begins repaying her loan in monthly installments of $167.

BUDGETING WHILE YOU'RE IN SCHOOL

College cost lookup:
http://nces.ed.gov/ipeds/cool/Search.asp

If college is your first experience living on your own, it may take you awhile to become familiar with budgeting for your expenses. Understanding how to live within a budget will help you while you are in school and might also help you more successfully manage your money after you leave school.

What is budgeting?

Budgeting is a way to make sure that you're not spending money this week that you may need for necessities later in the month. Start by listing your expected monthly expenses (such as rent, groceries, gas, electric, and phone bills) and the resources you expect to have available (such as your earnings) to pay those expenses.

What is your cost of attending school?

When your school determines your federal financial aid award, it uses a standard budget to estimate the expenses you will incur while attending school, including living expenses. The school's standard budget is called the "cost of attendance" or "cost of education," and it is likely to be a fairly good estimate of your expenses. However, you might spend more or less than the school estimates on variable expenses. Tuition and fees are fixed costs that are likely to remain the same for the entire school year, but some expenses, such as books and supplies, room and board, transportation, and personal expenses, may vary.

You can usually find a college's estimated cost of attendance by reviewing its catalog or looking on its Web site. College costs are also listed on the U.S. Department of Education's Web site at: **http://nces.ed.gov/ipeds/cool/Search.asp**

How can I reduce the amount I need to borrow?

If you can reduce your expenses, you might not need to borrow as much as the school has awarded you. It's a wise idea to borrow only what you need. If you borrow less than the school awards you, you'll have lower monthly payments when you repay the loan. This will leave you more money for transportation, housing, and other kinds of expenses associated with starting a career.

Another way to reduce what you need to borrow is to identify non-loan sources of financial assistance. You might have relatives and friends who are willing and able to help you. An extra $10 or $15 a week from a family member or friend can add up over a period of months or years. Many organizations award special scholarships—there are several free Web sites that can help you find out if you might qualify for one of these scholoarships.

A sure way to help pay for college and avoid excess borrowing is to work part-time. Working while going to school is not for everyone—but studies show that students who work while going to school do better in their courses than students who don't work. Working can also provide you with valuable experience and skills needed for a career.

Using the budget worksheet

The worksheet on the next page will help you plan ahead for school costs and living expenses. After establishing a budget, you may want to monitor your actual expenditures for a while to make sure your budget is accurate.

To determine your expenses, you will need to begin by compiling basic financial information. Your checkbook, credit card statements, school bills, and other monthly bills are a good place to start.

To estimate your total available income for the year, you will need to consider all of your resources. Include family assistance, grants and scholarships, savings, earnings, loans, and any other income. If you work during summer vacation, you should include savings from those earnings as a part of your resources for the next year. Your financial aid award letter, pay stubs, and bank account statements will help you calculate your available resources.

Determine the balance

The difference between your available resources and your expenses is your balance. If your balance is a negative dollar amount--in other words, your resources are less than your expenses--then try to find additional financial resources and take another look at your expenses to see if you can reduce them. For instance, it might be less expensive to live at home with your parents than to move into campus housing. If you live off campus, it will be less expensive to share housing with roommates than live alone. Cooking in can be inexpensive compared to eating meals out.

If your total resources are greater than your total expenses--in other words, the balance is a positive dollar amount--then you should see your school's financial aid administrator about the possibility of reducing your loan amount, even if you have already received some of the money. Remember that if you can lower the amount you borrow now, you will have less to repay later.

Estimated Expenses		Estimated Resources	
Tuition & Fees		Parents' contribution	
Books		Friends/Relatives	
Supplies		Summer job savings	
Dormitory/rent		AFDC	
Utilities		VA Benefits	
Telephone		Social Security	
		Other assistance	
Board plan			
Groceries		Scholarships	
Eating out		Grants (Pell, etc.)	
Clothes		Student loans	
Laundry		Co-op or work-study	
Household items			
Entertainment (movies, concerts, recordings, etc.)			
Commuting			
Car repair/insurance			
Trips home			
Health insurance			
Prescriptions			
Dependent care			
Emergencies, other			
TOTAL EXPENSES		**TOTAL RESOURCES**	

DEFERMENT, FORBEARANCE, CANCELLATION

Deferment and forbearance

Under certain circumstances, you can receive a deferment or forbearance on Stafford, PLUS, or Consolidation loan. To get a deferment or a forbearance, you must request one from your lender. Both deferments and forbearances allow you to postpone repaying the principal on your loan. If you have a subsidized loan, the advantage of a deferment is that the interest on the loan is paid by the federal government during the period of deferment.

The most common deferment is the "in-school deferment" for students enrolled at least 1/2-time at an eligible postsecondary school. Once you've graduated or left school, there might be times when you qualify for an unemployment or economic hardship deferment.*

The lender may grant you forbearance for a number of reasons—for instance, if you can't pay because of poor health or because your loan payments are too high relative to your income. Under a forbearance, the lender can temporarily postpone your loan payments or reduce them.

Cancellation (forgiveness & discharge)

Under certain unforeseen circumstances all or part of your loan(s) can be cancelled or discharged. The next page lists all of the circumstances for which a Stafford, PLUS, or Consolidation loan can be cancelled, such as permanent and total disability, the closure of your school, or the failure of your school to pay you a refund.

For Stafford loans only, there are two types of public service that qualify for cancellation (loan forgiveness). If you're a "new" Stafford borrower as of October 1, 1998 and you plan to teach full-time for five consecutive years at an elementary or secondary low-income school, you may qualify to have as much as $5,000 of your Stafford loan(s) discharged.

If you're interested in teaching at a low-income school or interested in the limited cancellation program for child care providers, you can get more information from our Web site at **www.ed.gov/studentaid** (select "Repaying Your Loan").

To apply for one of these cancellation provisions, you will need to contact the holder of your loan and submit an application.

* Note: At one time there were specific deferments for service in the Peace Corps and other public service organizations. Public service volunteers can now qualify for deferment only if their pay is below the minimum threshold, or if they have a relatively high debt.

DEFERMENTS & CANCELLATIONS

FEDERAL STAFFORD, PLUS, AND CONSOLIDATION LOANS

Educational Deferments

In-school. At least half-time at SFA-eligible school, or full-time at a school run by the federal government (such as the military service academies).

Graduate fellowship. Full-time study in an eligible graduate fellowship program.

Rehabilitation training. Engaged in a training program for disabled individuals recognized as such by the Department of Veterans Affairs or an appropriate state agency.

Economic Deferments

Unemployment. Looking for work but can't find a full-time (30 hours a week) job. (Limited to a total of three years.)

Economic hardship. Receiving public assistance, or having a high debt burden or low monthly income based on minimum wage and poverty guidelines. (Limited to a total of three years.)

Deferments for Previous Borrowers

If you have a loan made before July 1, 1993, you may be eligible for more specific deferments—check the promissory note for your loan for these deferments. More information about older deferments is available on our Web site at:

www.ed.gov/student aid

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

This is a quick overview of current deferments and cancellations. If you believe you may be eligible for one of these deferments or cancellations, check your promissory note, contact your lender, or visit the "Repaying Your Loan" area of our Web site:

www.ed.gov/studentaid

Loan forgiveness for public service (Stafford only)

Teacher cancellation. For "new borrowers" (first Stafford received after October 7, 1998), up to $5,000 of loan can be cancelled after five consecutive years of full-time teaching at a low-income elementary or secondary school.

Child care providers. Limited demonstration program (funded at $1 million) for borrowers who have served for two years in a child care facility in a low-income community.

Closed school & consumer cancellations

Closed school. If the school closed while the student was still enrolled.

No ability to benefit. If school certified the loan even though the borrower didn't have a GED or high school diploma, and didn't pass an "ability to benefit" test, as required by regulation.

Forgery. If someone forged the borrower's signature on the loan application, promissory note, or authorization for discharge.

Unpaid Refund. If the school failed to pay a required tuition refund to the student.

Bankruptcy, Death, and Disability

Bankruptcy. Student loans are rarely discharged in bankruptcy, and only if a bankruptcy court has determined that repayment would cause an undue hardship to the borrower.

Total and permanent disability. If the borrower of a Stafford or PLUS loan (or the student for whom a PLUS loan was borrowed) becomes totally and permanently disabled.

Death. Loan will be cancelled—repayment will not be sought fromthe estate or the endorser of the loan.

HOW YOUR LOAN WILL BE PAID

Whether you're getting a Stafford Loan or your parents are getting a PLUS loan, the loan funds will be paid to you through your school.

School charges are paid first ...

Your loan money will first be used to pay for your tuition, fees, and any room and board charges at your school. Usually this payment will be credited to your account. If loan money remains, you'll receive the funds by check or in cash unless you give the school written permission to hold the funds until later in the enrollment period.

Loan fees ...

The loan funds that you receive will be slightly less than the amount that you are borrowing. For instance, if you've been awarded a $2,000 loan to be paid in two installments at the beginning of your fall and spring terms, the actual amount credited to your account for fall semester may only be $960 and not $1,000.

That's because you will be charged a fee of up to 4% of the loan, deducted proportionately from each disbursement of your loan. Part of this fee is an insurance fee that is used to pay off loan defaults, and the rest of the fee reduces the cost of the loan to the government.

How you'll be notified ...

Your school must notify you in writing within 30 days before or after it credits your account with your Stafford Loan funds. You may cancel all or a portion of your loan if you tell your school within 14 days after the date that your school sends you this notice, or by the first day of the payment period, whichever is later. (A "payment period" is the semester or quarter at a term school, or--in most cases--1/2 an academic year at a nonterm school.) If you receive Stafford Loan funds directly by check, you may refuse the funds by returning the check. If you cancel all or part of your loan, ask for a revised tuition account statement. Keep this with your other loan records.

Payment example for a semester program

Sheila is a junior at Sagebrush University, where her fall tuition will be $3,500 and her room and board $2,000. Her aid award (for the whole year) is a $3,000 Pell Grant and the full $5,500 Stafford Loan.

Sagebrush applies the first disbursement of the Pell Grant ($1,500) to the tuition charge. When Sagebrush receives the loan funds for that semester from the bank ($2,668 after the loan fees are deducted), it credits the loan to the student's account for the remainder of the tuition charge ($2000) and $668 of the room and board charge. Julie and her family will be responsible for paying the remainder of the room and board charge.

Payment example for a nonterm program

Steve is enrolling in a 1-year program at the Springfield Computer Academy, where his tuition will be $4,500, charged at the beginning of the course, and his estimated off-campus living costs are $4,000. His aid award (for the whole year) is a $3,000 Pell Grant and the full $2,625 Stafford Loan.

Springfield applies the first disbursement of the Pell Grant ($1,500) and the Stafford Loan ($1,260 after the loan fees are deducted) to the tuition charge. When Steve completes the coursework for the first half of the program, Springfield uses the second disbursements of the Pell Grant and the Stafford to pay the remainder of the tuition charge ($1,740). This leaves $1,020 in aid, which Springfield pays to Steve by check for his living expenses.

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

REPAY YOUR LOAN—DON'T DEFAULT!

Unfortunately, some students don't repay their student loans and the loans go into default. Default can have very serious consequences for the borrower. The cost to the U.S. Department of Education of paying off default claims also reduces the amount of aid that can be given to other students.

The SFA loan programs are here to help you accomplish your goals. But it's up to you to make an informed decision about which school to attend, what occupation to prepare for, and how much to borrow. You will have to repay your loans even if you withdraw without getting your degree or certificate or are unable to find employment in your chosen occupation.

Staying in touch

Now that you're a loan borrower, you have to take care of your student loans in the same way that you would a car loan or a home mortgage. Some of the basics are:

▲ Keep your promissory note and all of your other loan paperwork.

▲ Stay in touch with your lender—be sure the lender has your current address and contact information at all times.

▲ Keep good records of your communications with your lender.

▲ Let your lender know if you're having trouble repaying.

It's not easy to go into default. The lender and guaranty agency will send you several notices if you're delinquent, encouraging you to resume payment. However, if you haven't responded satisfactorily after 270 days of delinquency, your lender will place your loan in default and notify the guarantee agency. Interest continues to accumulate on your loan during this time.

The consequences of default

Once the guaranty agency notifies a credit bureau of the default, the credit bureau may continue to report the default information for up to seven years from the date the loan is first reported as a default (or the date the guaranty agency pays the default claim).

▲ The guaranty agency will attempt to collect the loan, contacting you through a series of letters and phone calls to make repayment arrangements for the defaulted loan. The repayment amount may include a mandatory assessment of collection costs. If you do not make payment arrangements, the guaranty agency will take additional steps to collect your debt, including garnishing up to 10 percent of your disposable pay, withholding your federal and/or state income tax refund and other federal payments, and filing suit against you.

▲ There is no statute of limitations on wage garnishment, offset action against your income tax refund, or lawsuits to recover defaulted Department of Education loans, regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts.

▲ You won't be able to receive any federal financial aid until you've paid off the loan or made satisfactory payment arrangements with the holder of the loan.

REVIEW & NOTES

Borrower's Rights and Responsibilities ...

Your school or lender must provide you with a statement of your "Borrower's Rights and Responsibilities" before you get a Stafford Loan. Read this statement carefully and keep it with your promissory note and other important loan papers.

We won't repeat all the information on the "Borrower's Rights and Responsibilities" statement. Instead, we're highlighting several of the key points in this statement that you won't find in other materials. If you'd like to make this more interactive, write down the number of the paragraph in the "Borrower's Rights and Responsibilities" that discusses the points made below.

▲ You have the right to cancel the loan at any time before the loan is paid to you or to your school charges. You can also cancel the loan by paying back any loan funds within 120 days after you received them.

Discussed in paragraph [ ]

▲ After you stop going to school at least half-time, you'll have a grace period of 6 months before you have to start paying your loan.

Discussed in paragraph [ ]

▲ You can choose between four repayment plans: standard (5-10 year repayment), extended (up to 25 years), graduated, and income contingent/income sensitive.

Discussed in paragraph [ ]

▲ It's very important to stay in touch with your lender—you must tell your lender when you drop below half time or withdraw, change your permanent address or any of your contact information.

Discussed in paragraph [ ]

▲ In some cases you can ask the lender to postpone your loan payments, for instance, if you're enrolled half time at an eligible school or meet the criteria for economic hardship. You won't be charged any interest on your subsidized loans, but you will have to pay the interest on your unsubsidized loans.

Discussed in paragraph [ ]

Some review questions ...

You may not know the answers to all of these questions off the top of your head, so use the Rights and Responsibilities statement to find the answers that fit your situation.

What's the difference between a subsidized and an unsubsidized loan?

Does extending your repayment period lower the total amount of interest you will pay on the loan?

Does extending your repayment period lower your monthly payments?

When will you begin repaying your loan?

How long is your grace period?

Save this information ...

What's the current interest rate on a Stafford Loan? (Go to the SFA Students Web page at **www.ed.gov/studentaid** and look under "Repaying your student loan"

________%

Total loan amounts that you expect to borrow while at school. (If you're not sure, your school counselor can tell you the average loan indebtedness of students graduating from your school.)

$________

Expected monthly payments after you graduate, based on the loan amounts you borrowed while at school.

$________

Your expected starting salary (monthly) in the career field that you've chosen.

$________

What's the telephone number for the bank or servicer that made your loan? (If you haven't already gotten paperwork from the lender with a contact number, ask your counselor for it.)

(____)________

Review the list of deferment and cancellation provisions, and write down any that you think you might qualify for later on:

________________________ ________________________ ________________________

Other information to find out ...

To reduce the amount that you need to borrow, ask your counselor what scholarships and grants are available for students in your program of study, whether from private sources, your state agency, or from your school. You may also want to use a Web scholarship search, which is usually free.

Ask for a copy of your school's refund policy and review it carefully. If you withdraw while enrolled in courses, how much of your paid tuition and other charges will be returned to you or credited to your Stafford Loan? If you have questions, don't be afraid to ask.

Remember ...

To hold on to your promissory note, Borrower's Rights and Responsibilities Statement, and any other loan paperwork.

Before you graduate, you'll be invited to attend exit counseling, where you'll get more specific information about repaying your loan and how to make repayment easier. If you are going to graduate early or decide to withdraw from school, you must let your financial aid office know, so that they can give you this loan information before you leave.

Exit Counseling Information

CHAPTER 2

The "exit interview" is usually your last opportunity to reinforce the importance of repaying the loan and alternatives to letting the loan go into default. Some of the same topics that were discussed in Entrance Counseling will be reinforced here. But the emphasis in Exit Counseling shifts from budgeting while in school to budgeting while starting to repay the loan. In addition, the student will need to choose a repayment plan and consider the possibility of consolidation.

The following pages are written for the borrower, and will provide most of the information that is required for exit counseling, including repayment options, deferment and forbearance conditions, and the consequences of default. Additional information that must be provided by your school or by the lender is noted in the sidebar to the right.

Exit counseling can also be provided through the Web. See Volume 8, Chapter 5 of the SFA Handbook for a complete description of exit counseling requirements and when you must give exit counseling.

Exit counseling information not provided in these materials

- ▲The student must be given an estimate of monthly payment amounts—this can usually be provided by the lender.
- ▲The student must receive contact information for his/her lender(s).
- ▲You are required to provide the student with information about the Department's Student Loan Ombudsman. If your school materials do not include this information, you may use the sample statement on the next page.
- ▲It may be helpful to advise students on the preparation of correspondence to lender, deferment requests, etc.
- ▲Update any changes to student's personal information (name, social security number, etc.) This includes information you may have received through your school's alumni or placement offices.
- ▲Collect the student's driver's license number, expected permanent address, address of next of kin, and name and address of employer (if known).

SFA's Student Loan Ombudsman

The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the SFA Ombudsman.

Toll-free: 1-877-557-2575
http://sfahelp.ed.gov

Office of the Ombudsman
U.S. Dept. of Education
Union Center Plaza, 4th Floor
830 1st Street, N.E.
Washington, DC 20202-5144

(202) 401-4498
fax: (202) 260-1297

Best Practices in Default Prevention

Counseling tips from National Default Prevention Day

• Allow students to keep their school e:mail addresses for at least two years after leaving so that you can stay in contact with them..

• Require that a student complete exit counseling before graduating.

• Create a liaison with the local U.S. employment service office and the private industry council (under the Workforce Investment Act) to assist students with employment.

• Keep alumni abreast of student loan information through the alumni newsletter.

REPAYMENT IN A NUTSHELL

starting the clock

The repayment period on an **unsubsidized** Stafford loan starts when you've received the last loan for that school year, even though you can postpone your loan payments until you leave school. (You may wish to pay your interest as it accrues—see "Capitalization" below.) The repayment period on a subsidized Stafford Loan doesn't begin until after you leave school.

grace periods

Stafford loans also have a grace period—you don't have to make any payments for the first 6 months after you graduate, withdraw, or drop below 1/2 time enrollment. If you have a **subsidized** Stafford Loan you won't be charged interest while you're in school or during the grace period.

repayment plans

You can choose a standard, graduated, or income-sensitive repayment plan. If you have more than $30,000 in loans, you can choose an extended repayment plan. Once you've chosen a plan, you have to stick with it for at least a year before switching to another plan.

deferments

are periods when you don't have to make loan payments. The most common deferments are for students attending college (enrolled at least half-time), unemployment, and economic hardship. If you have a subsidized Stafford loan, the government pays the interest while the loan is in deferment. IF you have an unsubsidized loan, you can either pay the interest as it continues to accrue on the loan, or postpone your interest payments during the deferment (see "Capitalization").

forbearance

is similar to deferment, but often is at the lender's option. Also, you will always have to pay the interest that accumulates, even on a subsidized loan.

capitalization

You can usually opt not to pay the interest that accumulates while your loan is in deferment or forbearance. The lender will "capitalize" the interest and add it to your loan when you start making payments again. However, capitalization increases the total amount that you will repay.

default

happens when you're 270 days behind on your loan payments. Don't let your loans just go into default—make sure your lender always has your current address, and contact the lender if you're having trouble making payments. Your lender may be able to grant you a forbearance or make other arrangements to keep you from defaulting. If you default, you will be reported to national credit bureaus, your wages can be garnished, your income tax refund can be withheld, and you won't be able to get student aid to go back to school.

STARTING THE CLOCK: GRADUATION OR WITHDRAWAL

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

The date that you graduate or drop below half-time attendance is very important, because your grace period starts at that time. You're responsible for notifying your lender of the date when you're no longer enrolled at least half time at a participating school. If you don't resume half-time study in an eligible postsecondary school, you'll begin repaying your loans when the grace period ends.

If you're withdrawing from school, the withdrawal date is the date that you tell the school that you've withdrawn or the actual date you withdrew, whichever is later. When you withdraw, you may receive a refund from the school, depending on its policy. You also may be required to return some of your student aid.

You need not report to the lender when you stop attending in the summer. However, you may need to take additional time off from school to attend to personal matters, or for other reasons. Your school can grant you a leave of absence of up to 60 days without considering you to have withdrawn for financial aid purposes.

If you withdraw without notifying your school ...

Your school must determine your withdrawal date no later than 30 days after the end of your period of enrollment, your academic year, or your educational program, whichever is earliest. If you don't return from a summer break, your school has to determine your withdrawal date no later than 30 days after the first day of the next scheduled term.

If you don't withdraw officially, your withdrawal date will be the last date that your class attendance was recorded by your school. If you don't return from an approved leave of absence, the withdrawal date is your last date of class attendance. This date is used regardless of whether you withdrew officially (by notifying your school) or unofficially (by discontinuing attendance without notifying the school). For correspondence study, the withdrawal date is the date of the last lesson that you submitted.

Your grace period

When you leave school, you won't have to begin repaying your loan right away. Stafford Loans allow a six-month "grace period" that starts when you leave school or drop below half-time enrollment. (Older Stafford Loans may have a 9- to 12-month grace period—check your promissory note.) You may request a shorter grace period if you wish. If you have unsubsidized loans, you can reduce the amount of interest that accrues on the loan by requesting a shorter grace period and beginning repayment earlier.

Grace periods are day-specific; that is, an initial grace period begins on the day immediately following the day that you stop attending school at least half time and ends on the day before the repayment period begins. The initial grace period isn't "used up" during shorter periods of nonenrollment. For instance, if you miss a semester (4 months), but resume your studies at least half-time, you'll still be eligible for the full 6-month grace period when you graduate.

Prepaying your loan ....

Most Stafford loans must be repaid within 5 to 10 years, but periods of authorized deferment or forbearance are not counted in the repayment period. You may prepay all or part of a Stafford Loan at any time without penalty. If you make a scheduled payment that exceeds the amount due, the lender will treat the excess as a prepayment.

A prepayment is applied first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal. If the amount you prepaid **equals or exceeds** your monthly repayment amount the lender will advance the next payment due date (unless you request otherwise) and notify you of the revised due date. Even if you prepay, interest still accrues on the unpaid balance.

CHOOSING A REPAYMENT PLAN

If you're a Stafford Loan borrower, the lender will send you a repayment disclosure statement before the first payment is due—the law requires that the statement be sent not less than 30 or more than 240 days before the first payment is due. The disclosure statement will include contact information for the lender, a repayment schedule, and the interest rate and the estimated balance that will be owed on your loan(s) when repayment begins. (The lender must notify you within 120 days after you leave school of the date you will begin repayment.)

Your lender must give you the choice of standard, graduated, or income-sensitive repayment plans not earlier than six months before the date of the first scheduled loan payment. If you don't choose a plan within 45 days of the lender's offer, the lender will use the standard repayment plan. Even if you don't choose a particular plan, you may reach an agreement with your lender to repay all of your loans under one repayment schedule. You may change your repayment plan annually.

Comparing repayment plans

There are several key differences between these repayment plans. But the most important differences are your monthly payment and the total amount of interest that you'll be repaying.

The chart below illustrates some of these differences. Under the standard repayment plan, you'll usually repay your loan in ten years. The graduated repayment plan lets you start with smaller payments. However, the total interest that you'll pay on the loan will be greater. Under income-sensitive repayment, your payments will vary according to your annual income.

▲ Under the **standard repayment plan** you'll usually repay your loan within ten years. You'll be repaying the same amount of the loan each month, though your monthly payment may vary slightly from year-to-year because of interest rate changes.

▲ If you're a new Stafford borrower (as of October 7, 1998) who has more than $30,000 in Stafford Loans, you can choose the **extended repayment plan**. Since you make payments over a longer period (not to exceed 25 years) your monthly payments will be lower. However, the total amount of interest you repay will be greater.

▲ If you choose the **graduated plan**, you'll start with a lower monthly payment. Over time, your monthly payments will increase. While this plan may help you initially, when your starting salary is lower, keep in mind that you'll pay more total interest over the life of the loan than you would with the standard plan.

▲ Under an **income-sensitive repayment schedule**, your payments are adjusted annually, based on your expected total monthly gross income. If your salary increases regularly, your monthly payments will increase, as they would under the graduated plan. However, if your salary is reduced, your payments will also be reduced.

On–line calculators
www.ed.gov/DirectLoan/calc.html
www.mapping–your–future.org

	Standard Fixed & equal payments.		Graduated Beginning payments; payments will increase.		Income Sensitive Based on income=$25,000 beginning payments:	
Total Debt	Per Month	Total Payment	Per Month	Total Payment	Per Month	Total Payment
$2,500	$50	$2,958	$30	$3,695	$83	$2,747
$5,000	$58	$6,942	$30	$7,485	$83	$6,059
$7,500	$87	$10,413	$43	$11,262	$83	$10,723
$10,000	$116	$13,884	$58	$15,016	$83	$16,056
$15,000	$174	$20,825	$87	$22,523	$103	$25,824

Note: The monthly payment must equal at least the interest the accrues between scheduled payments.

Example

Jeannette Z. recently graduated from Mineral College, and is about to enter repayment on a $15,000 Stafford loan borrowed on a Master Promissory Note over four years of attendance. The interest rate is currently 6.29%. Under the Standard repayment plan (10-year repayment), Jeannette's payments for this year would be $174 a month, and will only change if the interest rate changes. Over this repayment period, she would pay $5,825 in interest.

Jeannette is concerned that the monthly payments are too high for her starting salary. Since she has borrowed less than $30,000, she is not eligible for the extended repayment plan. However, if she chooses a graduated repayment plan, her monthly payments would begin at $87. Jeannette is fairly confident that her salary will be increasing in the next few years, so she'll be able to handle the higher payments later on. While her estimated interest payments would be higher ($7,523), she decides that it's worth that extra interest cost to make her loan more affordable when she's still beginning her career.

More details on repayment plans

▲ Your monthly payments under the **standard repayment plan** may change from year-to-year because of changes to the Stafford interest rate. Your minimum repayment amount is a total $600 a year on all of your Stafford loans, but are usually higher because the length of the repayment period is limited to 10 years. If the minimum payment amounts are enough to pay off your loan earlier, your lender may set a repayment period of less than 5 years.

▲ The **extended repayment plan** is available to new borrowers after October 7, 1998 who accumulate outstanding loans totaling more than $30,000. The extended repayment plan has a fixed annual amount (at least $600 a year) or a graduated repayment amount. The extended repayment period is limited to 25 years.

▲ If you choose a **graduated repayment** plan, no single payment can be scheduled to be more than three times greater than any other scheduled payment and the repayment period is limited to 10 years.

▲ Under an **income-sensitive repayment schedule**, your payments are adjusted annually, based on your expected total monthly gross income. Your lender will usually ask you for income information within 90 days before your first payment is due. If a lender receives late notification that you've dropped below half-time enrollment status at a school, the lender may request the income information earlier.

The scheduled income-sensitive payments must cover at least the monthly interest charges. Your lender may round up the loan payment to ensure that the payment is a multiple of $5. If monthly payments based on your income would be too low to repay a loan within the maximum 10-year repayment period, the lender will ask you to submit documentation showing your most recent total monthly gross income from employment and from other sources. A lender must grant you up to 5 years of forbearance if the monthly payments under the income-sensitive plan would be too small to pay off the loan within the maximum repayment period. If you choose the income-sensitive plan but then don't provide the necessary documentation, the lender may use the standard repayment plan instead.

CAPITALIZATION OF INTEREST

If interest is accumulating on your loan during a period when you're not making loan payments, the lender will usually "capitalize" the interest, which means the interest is added to the loan principal. For instance, if you choose not to pay the interest on an unsubsidized Stafford Loan while you're in school, forbearance, deferment, or a grace period, the interest will usually be capitalized. Since this added amount also begins accruing interest, capitalization usually increases the overall amount to be repaid. Interest may be capitalized no more frequently than quarterly and any time repayment begins or resumes.

If you've agreed to pay interest during a grace, deferment, or forbearance period but are delinquent in making the payments, your lender may capitalize the delinquent interest and all interest accruing for the remainder of the period of deferment or forbearance. The lender must notify you before taking this action.

Capitalization of interest doesn't occur as often with subsidized Stafford Loans, because the interest is paid by the federal government while a borrower is in school, deferment, or the grace period. However, there your interest payments may be postponed and capitalized while you're in forbearance, for instance, while your request for deferment or cancellation is being reviewed.

Repayment Estimators on the Web
http://mapping-your-future.org/features

Capitalization example

Martina is working and making monthly payments on her unsubsidized Stafford loans that she borrowed for undergraduate study. She decides to enroll in a 9-month teacher certification program. Her lender agrees to defer the repayment of principal and interest on the loan for 9 months. Her unpaid balance at the beginning of the deferment period is $8,000. The interest rate for her Stafford Loan is 7% during her period of study, so approximately $420 of interest will accrue on the balance of the loan. If the lender adds this interest to the balance of the loan, then Martina will owe $8,420 on the loan at the end of the deferment period. If Martina had continued to make payments on the interest during this period, her balance would have remained at $8,000.

While it may appear that Martina will end up repaying the same amount whether she defers the interest payments or not, note that some additional interest will accrue because the capitalization increases the loan balance. For instance, if the interest rate continues at 7% for the next year, Martina's monthly payments might be approximately $114 (rather than $109 if she had not capitalized). The total interest that Martina pays over the life of the loan is impossible to predict, because the Stafford interest rates usually change each year. But as an example, if the interest rate remained at 7% for the life of the loan, Martina would pay an additional $130 over the life of the loan if the interest is capitalized during the period of deferment. (All figures are approximate.) If Martina would prefer not to have her interest capitalized, she may tell the lender that she wants to pay the interest as it accrues each month while she's in school and in the 6-month grace period after she leaves school.

Please keep in mind that the cost of capitalization increases with the length of the deferment period. If Martina had chosen to enroll in a two-year master's program, approximately $1,120 will accrue over 24 months, and the cost of capitalizing the interest for that period would be $346 (based on the same assumptions as the previous example).

LIVING ON A BUDGET

It may take a bit of an adjustment to get used to living on your own. There'll be some extra expenses at the beginning, of course, such as the deposit on an apartment, some new furnishings, and perhaps a set of dress clothes for your new job. If your parents can't help out, you'll have to plan on paying those costs.

To avoid problems repaying your student loans, you should have a good idea of how much it costs to live on your own. The amount you can afford may affect your decision on where you want to live when you start work. A frequently-used guideline for housing costs is that you should expect to pay about 25-30% of your salary for your rent or mortgage, and somewhere around 2 to 10% for utilities.

It may be hard to estimate your grocery expenses if you haven't lived on your own before. If you can't get a good idea of these costs from your check book or credit card statement, you may want to ask friends or relatives how much they're spending.

There are many expenses that tend to get overlooked in a budget, in particularly expenses that are not monthly—such as car insurance bills. Be aware of these expenses and be sure to include them in your budget.

There are several very helpful on-line calculators that you can use to estimate your income and expenses. You can also use the worksheet below as a way to list your expenses and compare them to your salary. The worksheet can be used for yearly or monthly estimates, but it's probably easiest to use monthly amounts. (For infrequent expenses, estimate a monthly value—for instance, if your car insurance is $300 for 6 months, then it's costing $50 a month.) Note that we're using a rough estimate that 30% of your income will be withheld for state and federal taxes, etc. Therefore, if you don't know the exact withholding figure yet, you can multiply your salary by 70% to estimate your take-home pay.

Budget Calculators on the Web
www.mapping-your-future.org

Estimated Expenses		**Estimated Income**	
Rent or mortgage		Anticipated Salary	
Groceries		X .70	
Eating out		Take-Home Pay	
Utilities (gas, water, elec.)		+ Other income	
Telephone		+ Gifts, etc.	
Clothes			
Laundry			
Household item			
Commuting costs			
Car repair/insurance			
Entertainment			
Cable / internet service			
Vacation			
Health insurance			
Prescriptions			
Dependent care			
Unexpected expenses			
TOTAL EXPENSES		**TOTAL INCOME**	

REPAY YOUR LOAN— DON'T DEFAULT!

Unfortunately, some students don't repay their student loans and the loans go into default. Default can have very serious consequences for the borrower, but the cost of paying off default claims also reduces the amount of aid that could be given to other students.

Going into default on a student loan will harm your credit rating—it may mean that you can't get a loan for a new car or to buy a home.

keep all of your loan paperwork

Keep your promissory note, repayment schedule, cancelled checks, just the same as if you were borrowing to buy a a car or a house.

stay in touch with your lender

One of the most common reasons a loan becomes delinquent or defaults is because a borrower has failed to update his/her address or name with the holder of the loan. If your address and phone information is no longer accurate, the servicer or lender will use skip-tracing to try and make contact with you.

If you will be required to send payments to a new address because of the sale or transfer of your loan, the present and former holders of the loan (either jointly or separately) must notify you of the change within 45 days of the sale or transfer. The notification should spell out your obligations to the new loan holder.

manage your money

If you're having trouble repaying your loans, you should carefully review your options to find the best solution.

▲ Reduce your expenses. Make a list of your monthly expenses, using checkbook and credit card statements. Don't forget to include enough money to cover expenses that don't occur every month. And remember to always leave a little room for those unexpected expenses. Now look at your list and see if there are ways you can economize until your financial situation improves.

▲ Change the type of repayment plan on your loan. If you expect your income to increase significantly in the next few years, then you might consider changing to an extended or graduated repayment plan. The disadvantage with these plans is that you'll end up paying more interest over the life of the loan, but it is a way to reduce your current monthly payment.

▲ Consider consolidating your loans. Aside from the convenience of making one loan payment instead of several, consolidation may give you a longer repayment period, which will reduce the interest on your loan. Again, however, a longer repayment period means you'll end up paying more interest over the life of the loan.

▲ Review your deferment options, including in-school and unemployment deferments. If you have a job and aren't in school, you may still qualify for an economic hardship deferment. The particular deferments that apply to your loan are listed in the promissory note.

▲ Always, always contact your lender if you find it difficult or impossible to make your monthly payments. The lender may be able to offer forbearance on the loan (postponing or reducing your payments) or other options.

How does a delinquent loan go into default?

Your loan becomes delinquent when you don't make a scheduled payment on time. To prevent defaults, the lender or servicer will attempt to contact you by phone and mail.

If it's authorized in your promissory note, your lender can assess a late charge for payments that are made more than 15 days after the scheduled payment date. This charge may not exceed six cents for each dollar of each late installment. The lender may also charge you for any collection costs on overdue payments, including attorney's fees, court costs, telegrams, and the cost of processing checks returned for insufficient funds. However, these charges may not include the cost of making personal contacts (for example, local and long-distance telephone calls).

If you're repaying in monthly installments, your loan will go into default if it becomes 270 days delinquent. For a loan repayable in less frequent installments, default occurs when the loan becomes 330 days delinquent. Keep in mind that a late charge can be imposed on a delinquent loan even if it doesn't go into default.

What happens when a loan goes into default?

If your loan defaults, your lender will usually sell it back to the state or other agency that guaranteed the loan. The guarantor will send you a written notice before reporting the default to a national credit bureau or assessing collection costs. The notice will include information about making a repayment agreement and give you a chance to ask for review of the status of the loan.

report to credit bureaus

Once the guaranty agency notifies a credit bureau of the default, the credit bureau may continue to report the default information for up to seven years from the date the loan is first reported as a default (or the date the guaranty agency pays the default claim). If you enter repayment after default and again allow the loan to default, the credit bureau may continue to report the default information for up to seven years from the date the loan enters default the second time.

collection costs; wage garnishment

Once the guaranty agency pays the default claim, it owns the loan and will continue the collection efforts begun by the lender, contacting you through a series of letters and phone calls to make repayment arrangements. The repayment amount will include a mandatory assessment of collection costs. The guaranty agency can file suit against you to recover the loan, ask your employer to withhold up to 10 percent of your disposable pay, and request that your federal and/or state income tax refund and other federal payments be withheld to pay off your debt. There is no statute of limitations on wage garnishment, tax refund offsets, or lawsuits to recover defaulted loans from the U.S. Department of Education, regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts.

loss of student aid; loss of deferment rights

Once you go into default, you lose your eligibility for aid from *any* of the SFA programs, including Pell Grants. You also lose eligibility for any type of deferment on the loan, such as a deferment when you return to school or a deferment for economic hardship. (A lender or guarantor may still grant forbearance on a delinquent or defaulted loan if you can't make payments, but you'll have to pay the interest on a subsidized loan.)

assignment to the ED Debt Collection Service

The guarantor may assign your loan to the U.S. Department of Education for collection. The Department's Debt Collection Service will undertake the same collection efforts as described above for the guarantor.

DEFERMENTS & CANCELLATIONS

FEDERAL STAFFORD, PLUS, AND CONSOLIDATION LOANS

Educational Deferments

In-school. At least half-time at SFA-eligible school, or full-time at a school run by the federal government (such as the military service academies).

Graduate fellowship. Full-time study in an eligible graduate fellowship program.

Rehabilitation training. Engaged in a training program for disabled individuals recognized as such by the Department of Veterans Affairs or an appropriate state agency.

Economic Deferments

Unemployment. Looking for work but can't find a full-time (30 hours a week) job. (Limited to a total of three years.)

Economic hardship. Receiving public assistance, or having a high debt burden or low monthly income based on minimum wage and poverty guidelines. (Limited to a total of three years.)

Deferments for Previous Borrowers

If you have a loan made before July 1, 1993, you may be eligible for more specific deferments—check the promissory note for your loan for these deferments. More information about older deferments is available on our Web site at:

www.ed.gov/student aid

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

This is a quick overview of current deferments and cancellations. If you believe you may be eligible for one of these deferments or cancellations, check your promissory note, contact your lender, or visit the "Repaying Your Loan" area of our Web site:

www.ed.gov/studentaid

Loan forgiveness for public service (Stafford only)

Teacher cancellation. For "new borrowers" (first Stafford received after October 7, 1998), up to $5,000 of loan can be cancelled after five consecutive years of full-time teaching at a low-income elementary or secondary school.

Child care providers. Limited demonstration program (funded at $1 million) for borrowers who have served for two years in a child care facility in a low-income community.

Closed school & consumer cancellations

Closed school. If the school closed while the student was still enrolled.

No ability to benefit. If school certified the loan even though the borrower didn't have a GED or high school diploma, and didn't pass an "ability to benefit" test, as required by regulation.

Forgery. If someone forged the borrower's signature on the loan application, promissory note, or authorization for discharge.

Unpaid Refund. If the school failed to pay a required tuition refund to the student.

Bankruptcy, Death, and Disability

Bankruptcy. Student loans are rarely discharged in bankruptcy, and only if a bankruptcy court has determined that repayment would cause an undue hardship to the borrower.

Total and permanent disability. If the borrower of a Stafford or PLUS loan (or the student for whom a PLUS loan was borrowed) becomes totally and permanently disabled.

Death. Loan will be cancelled—repayment will not be sought fromthe estate or the endorser of the loan.

CHAPTER 3

Grace Periods, Deferment, & Forbearance in Detail

Basic information on grace periods, deferments, and forbearance is provided in the entrance and exit counseling materials (Chapters 1 and 2 of this Guide). However, this more detailed description may be valuable as a resource for particular deferments, or when you are counseling a borrower who has older loans that are eligible for the specific deferment provisions available prior to July 1993.

You can provide selected fact sheets to students as needed, or direct them to our Web site (www.ed.gov/studentaid) for this information.

Current deferments
- Educational
- Unemployment
- Economic Hardship

Deferments for students who borrowed prior to 7/1/93
- Working mother
- Parental leave
- Family leave
- Temporary total disability
- Internship/residency
- Armed Forces, Public Health Service, & NOAA
- Teacher Shortage Area
- ACTION and Peace Corps
- Tax exempt organizations

Forbearance
- Mandatory
- Administrative
- Mandatory administrative

GRACE PERIOD AFTER LEAVING SCHOOL

When you leave school, you won't have to begin repaying your loan right away. Stafford Loans allow a six-month "grace period" that starts when you leave school or drop below half-time enrollment. (Older Stafford Loans may have a 9- to 12-month grace period—check your promissory note.) You may request a shorter grace period if you wish. If you have unsubsidized loans, you can reduce the amount of interest that accrues on the loan by requesting a shorter grace period and beginning repayment earlier.

Grace periods are day-specific; that is, an initial grace period begins on the day immediately following the day that you stop attending school at least half time and ends on the day before the repayment period begins. The initial grace period isn't "used up" during shorter periods of nonenrollment. For instance, if you miss a semester (4 months), but resume your studies at least half-time, you'll still be eligible for the full 6-month grace period when you graduate.

Military service

A period of active duty military service of more than 30 days exempts a member of the Armed Forces from the six-month grace period limitation, for up to a maximum of three years. The period necessary to resume regular enrollment in the next available regular enrollment period is also exempted from the six-month grace period.

Correspondence grace periods

For correspondence students, the grace period begins on the earliest of the following three dates:

- the date you complete the program; or
- the date that is 60 days after the school's deadline for completing the program.

Your grace period may also begin if it appears that you've ceased work in the program. Your grace period will begin if you fall 60 days behind the due date for submitting a scheduled assignment.

Federal SLS loans (prior to 7/1/1993)

If you have a Federal Supplemental Loans for Students (SLS) loan that has not yet entered repayment and a Federal Stafford Loan that has not yet entered repayment, you may request that the lender delay repayment on the SLS loan for the period equivalent to the Stafford Loan grace period so that repayment on both loans can begin at the same time. (Note that no new SLS loans are being made; the SLS Program was repealed beginning with the 1993-94 award year.)

Stafford Loans prior to October 1981

A borrower with Stafford Loans made prior to October 1, 1981 is entitled to a six-month **post-deferment** grace period following any deferment. The one exception is the unemployment deferment. Although a borrower may have several periods of unemployment deferred, he or she may receive a post-deferment grace period **only** following the first unemployment deferment.

GETTING A DEFERMENT OR FORBEARANCE

more nformation on repayment
http://www.ed.gov/studentaid

If won't be able to repay your loan for awhile, for instance because you are going back to school or have a very low income, a deferment lets you postpone repaying your loan. If you have student loans made prior to July 1, 1993, you may be eligible for other specific deferments based on public service and other factors. The conditions for deferment are listed on your loan promissory note.

If you have an unsubsidized loan, you will be responsible for paying the interest that accrues during a period of deferment. You can continue to make interest payments during the deferment period, or you can ask your lender to "capitalize" the interest—you won't have to pay interest during the deferment period, but it will be added to the principal balance of your loan when you resume repayment. For more information on how capitalization affects loan repayment, visit our Web site for students.

You should continue making payments on a loan until the lender notifies you that the deferment has been approved. A deferment period begins on the date the qualifying condition, such as unemployment, begins. A deferment may be granted retroactively. However, it cannot begin more than six months before the date the lender receives your request and supporting documentation.

Deferment facts

▲ Deferments listed on your promissory notes cannot be changed; however, additional deferments that could apply to **all** borrowers may be added by future legislation.

▲ A borrower whose loan is in default is **not** eligible for any deferments for that loan—unless the borrower has made payment arrangements acceptable to the lender **prior** to the payment of a default claim by a guaranty agency or the Department's Debt Collection Service (DCS).

▲ A co-maker on a Federal PLUS or Federal Consolidation Loan may receive a deferment if both borrowers are simultaneously eligible for the same or different deferments.

▲ Because the repayment period on a PLUS Loan begins on the date of the last disbursement for the period of enrollment, a deferment covering such a loan would also begin on the date of the last loan disbursement.

The following deferments apply to all "new" Stafford Loan, PLUS Loan, and Consolidation Loan borrowers. You're considered a new borrower for deferment purposes if your first loan disbursement was made on or after July 1, 1993 and have no outstanding balance on a Stafford, PLUS, or Consolidation Loan made before that date.

EDUCATIONAL DEFERMENTS

*The following deferments apply to all "new" Stafford Loan, PLUS Loan, and Consolidation Loan borrowers. You're considered a new borrower for deferment purposes if you took out your first loan from these programs on or after July 1, 1993.**

You can defer repayment on your Stafford Loan if you're enrolled at least half-time at a school that's eligible to participate in the SFA programs (even if the school does not currently award aid from those programs or can't make Stafford Loans because of a high default rate). You may apply for an in-school deferment by submitting a deferment application with documentation. However, your lender or servicer can *automatically* grant you a deferment on your earlier loans if it receives a new student loan application from you. (The lender/servicer must notify you when it applies an automatic deferment and give you the options to continue paying the interest or to cancel the deferment.)

Rehabilitation training

A rehabilitation training program for disabled individuals is eligible for deferment if it is recognized as such by a state agency with responsibility for vocational rehabilitation programs, drug abuse treatment programs, mental health services programs, and alcohol abuse treatment programs. A rehabilitation training program is also eligible for deferment if it is recognized by the Department of Veterans Affairs; and provides trainees with rehabilitation services under a written plan that is individualized to meet the borrower's needs, specifies the date on which the services are expected to end, and requires a substantial commitment from the trainee that normally would preclude full-time employment. (Full-time employment for this purpose involves at least 30 hours of work per week and is expected to last at least three months.)

To qualify for a rehabilitation training program deferment, you must have an authorized official of the training program provide a statement to your lender certifying that you will be receiving services under an eligible rehabilitation training program for disabled individuals.

Federal schools

You can also defer your Stafford or PLUS loan if you're enrolled full-time at a school that is operated by the federal government (for instance, the service academies), provided that you are a citizen or national of the United States and pursuing a course of study at a school located in a State.

Graduate fellowship program

You can defer your Stafford or PLUS loan while you're studying full-time in a fellowship program that provides sufficient financial support for full-time study for at least six months, requires a written statement of educational objectives from applicants before awarding financial support, and requires graduate fellows to submit periodic reports, projects, or evidence of the fellow's progress. In the case of a course of study at a foreign university, the fellowship program must accept the course of study as meeting its completion requirements.

You must submit a deferment form to the lender with a statement from an authorized official of the fellowship program certifying that you have at least a bachelor's degree and that you have been accepted into an eligible graduate fellowship program (or recommended for acceptance). The official must also provide your anticipated completion date in the program.

Medical internship or residency

"New borrowers" after July 1, 1993 can't get an educational deferment for service in a medical internship or residency program, except for an internship in dentistry. However, you may qualify for a mandatory forbearance, which would enable you to postpone the principal and/or interest payments on your loan(s). Remember that there is no interest subsidy during periods of forbearance.

**or if you had no outstanding balance on any loans from those programs on July 1, 1993 or on the date you took out you took out your new loan after July 1, 1993*

UNEMPLOYMENT/ ECONOMIC HARDSHIP DEFERMENTS

*The following deferments apply to all "new" Stafford Loan, PLUS Loan, and Consolidation Loan borrowers. You're considered a new borrower for deferment purposes if you took out your first loan from these programs on or after July 1, 1993.**

Unemployment or part-time employment deferment

If you're looking for a job, but can't get full-time employment, you may defer your payments for up to three years. Full-time employment is defined as at least 30 hours of work a week, with the expectation that the job will last at least three months. To get the deferment you must submit an application to your lender, including a written certification that describes your diligent search for full-time work.

If you're only seeking to defer an "initial period" of unemployment, you won't have to describe efforts to get a job at the time the deferment is granted. The initial period deferment can be granted for a period of unemployment beginning up to 6 months before the day your request was received and can extend for up to 6 months after that date (a maximum of 12 months).

To keep the deferment, you'll have to resubmit the deferment request every six months, to confirm that you are continuing to look for work. The request must document at least six attempts to get a job during the previous six months, including information such as the name and address of the employer, or other information acceptable to your lender or servicer. Your lender may accept comparable documentation that you've used for the Unemployment Insurance Service, if it shows the same number of contacts and contains the same information that's required for your loan deferment.

If you live within 50 miles of a public or private employment agency, you must also register with the employment agency.

You can't get an unemployment deferment if you don't want to look for work at salary and responsibility levels for which you feel you are overqualified based on your education or previous experience.

Economic hardship deferment

You may also get a deferment if you are experiencing economic hardship due to low income (not to exceed a total of three years). You'll have to submit a deferment request every 12 months to confirm your continuing eligibility. You're considered to be experiencing economic hardship if you are receiving payment under a federal or state public assistance program or have already been granted an economic hardship deferment for another federal student loan** for the same period for which you are requesting an economic hardship deferment. You can also qualify for this deferment if you have sufficiently low income or high debt burden under one of the following three categories listed on the next page.

**or if you had no outstanding balance on any loans from those programs on July 1, 1993 or on the date you took out you took out your new loan after July 1, 1993*
***Federal Perkins, Federal Stafford, Federal PLUS, Federal Consolidation loans*

Low income and/or high debt burden

1 You are not working full time and your total monthly gross income from all sources is less than twice the greater of (1) the minimum wage rate* or (2) the poverty line** for a family of two. In addition, after deducting the total monthly payments on federal education loans, the borrower's income from all sources may not exceed the larger of (1) the minimum wage rate* or (2) the poverty** line for a family of two.

→ Based on the current minimum wage and poverty line (as of May 2001), this means your total monthly gross income must be less than $1,875 and your income from all sources minus your total monthly payments on federal education loans must be $938 or less. (Alaska and Hawaii have different poverty guidelines.)

2 You are working full time, but earning a total monthly gross income that does not exceed the greater of (1) the minimum wage* or (2) the poverty line** for a family of two.

→ Based on the current minimum wage and poverty line (as of May 2001), this means your total monthly gross income must be $937.50 or less. ($1,171.67 in Alaska and $1,077.50 in Hawaii.)

3 You are working full time and your annual federal student loan payments are at least 20 percent of your adjusted gross income **and** your income minus the your monthly loan payments are less than 220 percent of the greater of (1) the minimum wage* or (2) the poverty line** for a family of two. (You can't include defaulted loans in the education debt burden unless you've made satisfactory repayment arrangements.)

→ Based on the current minimum wage and poverty line (as of May 2001), this means you qualify for a deferment if your monthly federal education debt is at least 20% of your monthly income, AND, after subtracting that debt from your monthly income, the remaining amount is $2,062.25 or less.

*The minimum wage, currently $5.15, is determined by statute and is posted on the U.S. Department of Labor's Web site at: www.dol.gov/dol/asp/public/programs/handbook/minwage.htm

**The poverty guideline is established by the U.S. Department of Health and Human Services, under Section 673(2) of the Community Service Block Grant Act. The current guidelines are posted at: http://aspe.os.dhhs.gov/poverty/01poverty.htm

DEFERMENTS PRIOR TO JULY 1993

An "old borrower" who received a Stafford, PLUS, or Consolidation Loan before July 1, 1993 is eligible for the following deferments on that loan and subsequent loans from those programs. You're considered an "old borrower" for loans after July 1, 1993 if you had an outstanding balance on a Stafford, PLUS, or Consolidation Loan on July 1, 1993, AND on the date that you take out a loan after July 1, 1993.

Working mother

To qualify for the working-mother deferment, you must give your lender a statement certifying that you—
- are the mother of a preschool-age child (not yet enrolled in first grade),
- are working full time (at least 30 hours of work a week for at least 3 months),
- don't earn more than the minimum hourly wage plus one dollar, and
- entered or reentered the workforce within the last year, before the beginning date of the requested deferment period.

In addition to the certification you'll have to provide your lender with documents showing the age of your child (e.g., a birth certificate) and your hourly wages (e.g., a pay stub showing her hourly rate of pay).

Parental leave

To qualify for a parental-leave deferment you must give your lender a statement certifying that you—
- are pregnant, caring for your newborn child, or caring for an adopted child immediately following the placement of the child with you, and
- won't be attending school or working full-time during the deferment period.

You'll also need to provide a statement from an authorized college official certifying that you were enrolled at least half time during the 6 months preceding the beginning of the deferment period. Finally you'll have to provide a physician's statement that you are pregnant, a birth certificate, or a statement from the adoption agency official evidencing a pre-adoption placement.

Dependent's disability

To qualify for a deferment when your spouse or other dependent requires continuous nursing or similar services for a period of at least 90 days, you must provide your lender with a statement certifying that you are unable to work full time because of the nursing care that you are giving. You'll also need to provide a statement from a doctor of medicine or osteopathy who is legally authorized to practice, certifying that your spouse or dependent needs continuous nursing or similar services for a period of at least 90 days. A lender may not grant a deferment based on a single certification that extends more than 6 months after the date of the certification.

Temporary total disability

To qualify for a temporary total disability deferment, you must provide your lender with a statement from a doctor of medicine or osteopathy who is legally authorized to practice, certifying that you are temporarily totally disabled (unable to work or go to school for at least 60 days while recovering from an illness or injury). You cannot be considered temporarily totally disabled on the basis of a condition that existed before you applied for the loan, unless the condition has substantially deteriorated after you submitted the loan application. A lender may not grant a deferment based on a single certification that extends more than 6 months after the date of certification.

Internship/residency

To be eligible for this deferment, you must provide your lender with a statement from a state official or from an authorized official of the organization that offers the internship or residency program. If the statement is signed by a state official, it must certify that the state requires you to complete part or all of the program before you can be certified for professional practice or service. The state official's statement must include the anticipated dates you will begin and complete the minimum period of participation in the program required for state certification. If the statement is signed by a school official, it must include the anticipated dates that you will begin and complete the program and it must certify that the program—
- is a supervised training program that requires a baccalaureate degree for admission
- leads to a degree or certificate awarded by a college or university, a hospital, or a health care facility that offers postgraduate training.

Armed Forces, Public Health Service, & NOAA

To qualify for a military deferment* you must give your lender a written statement from your commanding or personnel officer certifying—that you are on active duty in the Armed Forces* of the United States, the dates on which your military service began and is expected to end. As an alternative, you may provide a copy of your official military orders and a copy of your military identification.

** For the purpose of this section, the Armed Forces means the Army, Navy, Air Force, Marine Corps, and the Coast Guard. You may qualify for a military deferment for full-time service in a reserve component of the Armed Forces if that service is expected to last at least one year, as evidenced by official military orders, unless an order for national mobilization of reservists is issued. A member of the National Guard can only qualify for a military deferment while he or she is on active duty status as a member of the U.S. Army or Air Force Reserves and meets the criteria for a reservist.*

To qualify for a deferment for working in the National Oceanic and Atmospheric Administration (NOAA) or as an officer in the Commissioned Corps of the U.S. Public Health Service (PHS) , you must give your lender a statement from an authorized official of the PHS or NOAA certifying that you are engaged in full-time service, and the dates your service began and is expected to end.

Teacher Shortage Area

Repayment of Stafford Loans may be deferred for full-time teaching in a federally-designated teacher shortage area for a maximum of three years. To obtain a targeted teaching deferment, you must submit a deferment form to your lender for each school year of teaching service. The principal at the school where you are teaching must certify on the deferment form that you are teaching in a federally-designated teacher shortage area. If the State Education Agency has not informed principals that their schools were designated as having a shortage of teachers, you should contact your State Education Agency to get the form certified. Please remember that you must reapply each school year for a targeted teaching deferment. If you continue to teach in the same shortage area for which you obtained the original deferment, you may continue to receive the deferment for a maximum of three years, even if your position is no longer considered to be in a teacher shortage area for those subsequent years. To receive the continuing deferment, you must provide the lender with a completed deferment form, certified by the school principal, indicating that you continue to teach, full time, in the same teacher shortage area for which the deferment was received the previous school year.

ACTION and PEACE CORPS

To qualify for a deferment for service under the Peace Corps Act, you must provide your lender with a statement from an authorized Peace Corps official certifying that you've agreed to serve for a term of at least one year and giving the date you began your service and the date on which your service is expected to end. Your lender must grant a deferment for your full term of service in the Peace Corps, not to exceed three years. To qualify for a deferment as a full-time paid volunteer in an ACTION program, you must provide your lender with a statement from an authorized official of the program certifying that you've agreed to serve for a term of at least one year and giving the date on which your service began and the date on which the it is expected to end.

Tax exempt organizations

To qualify for a deferment as a full-time paid volunteer for a tax-exempt organization, you must provide your lender with a statement from an authorized official of the volunteer program certifying that you serve in a tax exempt organization, and that you've agreed to serve for a term of at least one year and giving the date on which your service began and the date on which the it is expected to end. The official will also be certifying that you—

- provide service to low-income persons and their communities to assist them in eliminating poverty and poverty-related human, social, and environmental conditions.
- don't, as a part of your duties, give religious instruction, conduct worship services, engage in religious proselytizing, or engage in fund-raising to support religious activities.
- don't receive compensation that exceeds the federal minimum wage, except that the tax-exempt organization may provide volunteers with health, retirement, and other fringe benefits that are substantially equivalent to the benefits offered to other employees of the organization.

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Stafford • PLUS • Consolidation Loans

TYPES OF FORBEARANCE

If you're financially unable to make the required payments on your loan, you can ask your lender to grant forbearance. You can ask for a forbearance over the phone—the request doesn't need to be made in writing. A lender will usually grant a forbearance that temporarily suspends your scheduled payments. Upon your request, the lender apply a forbearance to temporarily reduce the payments that were previously schedul, or to extend the time for you to make a scheduled payment.

Your lender may grant forbearance of principal, interest, or both. If forbearance is granted on interest, the interest that accrues during the forbearance will usually be capitalized and added to the loan.

Your lender can grant forbearance for up to 1 year if you agree to this in writing. Forbearance can be granted for up to 3 months for a natural disaster.

A lender can also grant forbearance for up to 60 days after your request for deferment, forbearance, change in repayment plan, or consolidation of loans, to allow for submission of supporting documentation or processing the request. Interest accruing during the 60-day period cannot be capitalized.

If two persons are jointly liable for repayment (as co-makers) of a PLUS Loan or Consolidation Loan, the lender may grant forbearance only if **both** persons meet the conditions for a forbearance.

Mandatory Forbearance

Your lender *must* grant you forbearance for both principal and interest (if requested) in the following circumstances:

▲ You're serving in a medical or dental internship or residency program and you're not eligible for the internship deferment formerly available in the FFEL program.

▲ If your monthly SFA loan payments are collectively equal to or greater than 20 percent of the your total monthly income. The lender may grant a total of three years (not necessarily continuous) of forbearance.

▲ If you are serving in a national service position for which you received a national service education award under Americorps (the National and Community Service Trust Act of 1993).

▲ If you're eligible for partial repayment of a loan under the Student Loan Repayment Programs administered by the Department of Defense.

These forbearances must be renewed every 12 months. **[Last year's text says that the forbearance for med/dental forbearance must be made in writing--is that a mistake or an exception to the general statement above, that forbearances no longer have to be requested in writing?]**

Administrative forbearance

In certain cases, the lender may apply an administrative forbearance, which doesn't require your approval. Upon notifying you, your lender may grant forbearance for circumstances such as:

▲ A deferment was granted but your lender later learns that you did not qualify for the deferment.

▲ A period during which payments were overdue before your deferment began.

▲ If you enter repayment and the lender doesn't find out until later, the period between the date you entered repayment until the date the first payment scheduled by the lender is due.

▲ A period of delinquency at the time a loan is determined to be delinquent, sold, or transferred, as long as the borrower or endorser is less than 60 days delinquent on the loan at the time of sale or transfer.

▲ A period necessary to determine your eligibility for bankruptcy discharge, closed school discharge, or similar discharges.

▲ A period of delinquency that may remain after deferment or mandatory forbearance and before the next due date is established.

▲ Up to three months if you've been affected by a disaster in a geographic area specifically designated by the Department as a natural disaster area. You must contact the lender to request forbearance, but you do not need to make a written request or submit documentation.

Mandatory administrative forbearance

Your lender *must* grant you an administrative forbearance if the following circumstances apply:

▲ You're making reduced payments because the effect of a variable interest rate change requires the extension of the maximum repayment term (under a standard or graduated repayment schedule). Up to three years must be granted.

▲ You're making reduced payments because an income-sensitive repayment schedule requires the extension of the maximum repayment term. Up to five years may be granted.

▲ The Department notifies the lender that exceptional circumstances exist (such as a local or national emergency or a military mobilization). If you are part of a military mobilization you must provide supporting documentation as proof.

REPAYING A PLUS LOAN (PARENTS)

The PLUS Loan doesn't have an interest subsidy—if you're a parent borrowing a PLUS for your son or daughter, you're responsible for paying the interest that accrues while he or she is in school, and during any periods that the lender has granted deferment or forbearance on your loan.

You have the same choice of repayment plans as a student who borrows a Stafford Loan: standard, extended, graduated, and income-sensitive.

The repayment period for a PLUS Loan begins on the date of the last loan disbursement and ends no later than 10 years after repayment begins, excluding periods of authorized deferment and forbearance. (Exception: if you choose the extended repayment plan, the maximum repayment period is 25 years.) Your first payment of principal and interest is due within 60 days after the loan is fully disbursed, unless a deferment condition applies.

The minimum repayment amount is a total of $600 per year for all of your PLUS Loans. If you also received Stafford Loans as a student, you must pay a total of at least $600 per year on all of your student Stafford Loans and PLUS Loans combined. The monthly payment amounts must be at least equal to the amount of interest due. Your lender may require a repayment period of less than 5 years, if necessary, to ensure that the above minimum payments are met. The lender may also round up the loan payment to ensure that the payment is a multiple of $5.

The deferments for PLUS loans are currently the same as for a Stafford loan. You can defer payments while you're enrolled at least half time in college. You can also seek a deferment if you have been unable to find full-time employment or if you're experiencing economic hardship. (If you borrowed a federal student loan before July 1, 1993, you may be able to defer your loan while your son or daughter is enrolled at least half-time in college.)

A PLUS loan has most of the same cancellation provisions as a Stafford loan, including school closure, false certification, teacher service, some bankruptcy cases, and the death or disability of the borrower. See the fact sheets covering these cancellation conditions for more information. The major exception is that PLUS borrowers are not eligible for cancellation as child care providers.

Important note:

If the student for whom you borrowed enrolls less than half time or does not enroll at all during the period for which the loan was intended, the entire amount is immediately due to the lender. It's your responsibility to notify the lender of the date when the student for whom you borrowed ceases to be enrolled at least half time. (The school is also required to promptly notify the lender when the student drops below half-time status.)

CHAPTER 4

Cancellation (Discharge) in Detail

Traditionally, Stafford Loans have provided for cancellation in cases where the loan was discharged in bankruptcy, or the borrower died or became permanently disabled. More recently, provisions have been added to allow discharge of the loan for certain consumer issues, such as an unpaid refund or the closure of a school before the borrower completes the program (Higher Education Amendments of 1992). Most recently, the law authorizes cancellation for child care providers and teachers at low-income schools (Higher Education Amendments of 1998).

Because of the targeted nature of these cancellations, we suggest that these fact sheets only be distributed to students who need them. For most students, the basic list of cancellations and deferments provided in Chapter 1 should be sufficient. That list directs students and borrowers who have a particular interest in a cancellation to visit our Web site for more detailed information.

Another kind of cancellation is offered by the Department of Defense as an enlistment incentive—it may repay part of an FSA loan for an enlisted person in certain specialties in the U.S. Army, the Army Reserves, the Army National Guard, or the Air National Guard. This program is not a Stafford/PLUS cancellation provision and the borrower remains responsible for payments on a Stafford/PLUS loan in the event that the DOD payments are not forthcoming. For more information, a student should contact his or her local Army or Air National Guard recruiting office. This is a recruitment benefit and cannot be offered retroactively for prior service.

CANCELLATION PROVISIONS

Loan Forgiveness for Public Service
- low-income teacher service
- child care provider

Closed School & Other Consumer Cancellations
- closed school
- forgery
- loan approved when the student did not have "ability to benefit"
- unpaid refund

Bankruptcy Cancellation

Disability Cancellation

Cancellation for Death of the Borrower

Low-Income School Teacher Cancellation

(does not apply to PLUS)

Low–income school list:
http://www.ed.gov/studentaid

Loans eligible for cancellation

You may be able to cancel up to $5,000 of your Stafford Loans if you are teaching in a low-income school and you are a "new borrower" — you got your first Stafford Loan on or after October 1, 1998. (Or you had no remaining balance on Stafford, PLUS, or Consolidation Loans made before October 1, 1998 when you took out a Stafford Loan after that date.)

If you've consolidated Stafford loans that were eligible for teacher cancellation, the amount of the Consolidation Loan that is represented by the eligible Stafford Loans is eligible for cancellation.

Qualifying teacher service (5 years)

To qualify, you must work as a full-time teacher for 5 consecutive years in an elementary or secondary school that has been designated as a "low-income" school for Perkins and Stafford Loan cancellation. At least one of your qualifying years of teaching must have been after the 1997-98 school year. Low-income schools are designated by the Department each year, and a list of these schools, by year, is posted on our Web site at **www.ed.gov/studentaid**

▲ *Your school does not have to be designated a low-income school in each of the 5 consecutive years.* If you are teaching at a school that is listed as a low-income school for at least one year (during your employment), your subsequent years of service at that school can be counted in the five consecutive years, even if the school is not designated as a low-income school in every subsequent year. For example, if you began teaching at a secondary school in the 1994-95 academic year, and it was designated as a low-income school in 1996-97, you may count your five consecutive years of service at that school starting with the 1996-97 academic year, even if the school is not designated as a low-income school in subsequent years.

▲ *Your five consecutive years won't necessarily be interrupted* if you were unable to teach a full year because of a family or medical leave condition,* because you went back to school (at least half-time) for reasons directly related to the performance of your teaching service, or because you were called or ordered to active duty status for more than 30 days as a member of a reserve component of the Armed Forces.**

If you completed at least one-half of the academic year *and* your employer considers you to have fulfilled your contract requirements for the academic year for the purposes of salary increases, tenure, and retirement, that academic year can be counted as one of your qualifying years of teaching service.

*A condition that is covered under the Family and Medical Leave Act of 1993 (FMLA) (19 U.S.C. 2654)
**A reserve component of the Armed Forces named in section 10101 of title 10, United States Code.

Low-income school list:
www.ed.gov/studentaid

How to Apply

To apply, you must submit a loan forgiveness discharge form to the lender or servicer holding your loan. The chief administrative officer at your school must certify on this form that you have taught full-time for five consecutive years at that school, and —

▲ *If you're teaching in an elementary school,* that you have knowledge or teaching skills in reading, writing, mathematics, and other areas of the elementary curriculum.

▲ *If you're teaching in a secondary school,* that you are teaching in a subject area relevant to your academic major

You can get a forbearance for up to 60 days while you're getting the required information for your application, and during the time it takes for your application to be reviewed by the lender and guarantor. (The loan holder and guaranty agency must notify you within 135 days of the decision on your application and, if it is approved, provide new repayment terms based on any remaining loan balances.)

The lender may cancel up to $5,000 of the aggregate loan amount that is outstanding after you've finished your fifth year of teaching. (The aggregate loan amount includes both principal and interest.) However, the lender cannot refund the payments you made before you completed the fifth year of teaching service. You may want to request forbearance from your lender for each of the years of your qualifying teaching service if the expected cancellation amount will satisfy the anticipated remaining outstanding balance on the loan at the time of the expected cancellation.

Unless you give your lender or servicer other instructions, your unsubsidized Stafford loan balance will be cancelled first, followed by any outstanding subsidized Stafford loan balances, and then any eligible outstanding consolidation loan balances. The lender may cancel only the outstanding portion of the consolidation loan that was used to repay subsidized or unsubsidized Stafford loans that qualified for loan forgiveness.

The Fine Print

→ "Academic year" means one complete school year at the same school, or two complete and consecutive half years at different low-income schools, or two complete and consecutive half years from different school years at either the same school or different schools. Half years exclude summer sessions and generally fall within a twelve-month period. For schools that have a year-round program of instruction, nine months is considered an academic year.
→ "Elementary school" and "secondary school" means a public or nonprofit private school that provides elementary education or secondary education as determined by state law (or by the Department if the school is not in a state).
→ "Full-time employment as a teacher" is determined by the state's standard. For a borrower teaching in more than one school, the determination of full-time is based on the combination or all qualifying employment.
→ "Teacher" means a person who provides direct classroom teaching or classroom-type teaching in a non-classroom setting, including Special Education teachers.

Exclusions:
→ At least one of the five qualifying years of service must be later than the 1997-98 academic year.
→ A borrower is not eligible for teacher loan forgiveness on a defaulted loan unless the borrower has made satisfactory repayment arrangements with the holder of the loan.
→ A borrower may not receive loan forgiveness for qualifying teaching service under this section if the borrower receives Americorps benefits for the same teaching service (paid under subtitle D of Title 1 of the National and Community Service Act of 1990).

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

Closed School & Other Consumer Cancellations

When can my Stafford loan be cancelled because of problems involving my school?

If your school closed while you were enrolled ... The loan can be cancelled if you were enrolled when the school closed and couldn't complete the program because of the closure. If you were on an approved leave of absence you are considered to have been enrolled at the school. If your school closed within 90 days after you withdrew, you are also considered eligible for the discharge. However, your loan cannot be cancelled because of personal circumstances that caused you to withdraw more than 90 days before the school closed. If you need to find out the day when your school officially closed, you can visit our Closed School Search Page on the Web at **www.ed.gov/studentaid**

Your loan cannot be cancelled if you are completing a comparable educational program at another school. If you complete a comparable program of study at another school *after* your loan is cancelled, you may have to pay back the amount that was cancelled. If you haven't received a diploma or certificate but have completed all of the coursework for the program, you're not eligible for this cancellation.

If you didn't have the "ability to benefit" from the coursework ... The loan can be discharged if the school admitted you based on your ability to benefit from the training, but you weren't properly tested to measure that ability or failed the test. If you had a high school diploma or GED when you enrolled in the program, you are ineligible for this discharge because those documents are sufficient to establish your ability to benefit from further training after high school. *You may not be eligible for a discharge if you received a GED before you completed your program of study at the college or career school or you completed a developmental or remedial program at the school.*

You may also be eligible for this type of discharge if you did not meet the physical or legal requirements of your state to enroll in the program or work in the career for which you were training, regardless of whether you had a high school diploma or GED.

If your signature was forged on the loan documents ... If you believed that someone forged your signature on the loan application, promissory note, or authorization for electronic fund transfer, you must attach five different samples of your signature to your application for the loan discharge. At least two of the samples must be on documents that are clearly dated within a year before or after the date of the contested signature. *You may not be eligible if the loan was used to pay your school charges for the portion of the program of study you completed (whether the payment was by a credit to your account or by cash or check).*

If the school owes you a refund ... You may also qualify for partial discharge of an Stafford Loan if your school failed to pay a tuition refund required under federal law. Only the amount of the unpaid refund will be discharged. You may qualify for this refund whether the school is closed or opened.

Can my loan be discharged because I wasn't satisfied with the school's services?

Your loan cannot be discharged solely because you believe that the school :

- provided poor training or had unqualified instructors or inadequate equipment,
- did not provide job placement or other services that it promised, or
- engaged in fraudulent activities (other than falsely certifying the loan).

Also, a loan discharge cannot be granted because you attended an ineligible program of study offered by the school. There is no authority for the discharge of your loan based on any of these reasons. The State licensing and accrediting agencies for the school have the responsibility for the quality of educational services that the school provides. The U.S. Department of Education does not endorse the school's educational programs or guarantee that the school will deliver the services for which a student contracted.

How do I apply for a loan discharge?

If the holder of your loan learns that a school closed, that organization will send you a loan discharge application. If you haven't received the discharge application, you may request one by contacting the organization that holds your loan. Or you can get a copy of the loan discharge application on the Department's website at:

www.ed.gov/offices/OSFAP/DCS/cancel/home.html

If you're not sure who holds your loan, you can contact our Federal Student Aid Information Center to find out (call **1-800-4-FEDAID** or send an e:mail to **SFAmail@ncs.ed.gov**).

Am I required to make payments on the loan while the discharge application is being reviewed?

If you submit an application that appears to make you eligible for a loan discharge, the holder of your loan may grant forbearance until a decision is made on your application. If a forbearance is granted, no one is permitted to collect on your loan until the holder of your note determines whether you are eligible for a loan discharge.

If the lender does not grant forbearance, you should continue to make payments on your loan to prevent the loan from going into default or accruing additional interest, unless you are granted a forbearance. When you received your loan, you signed an a legally-binding agreement to repay that loan. Failure to honor that agreement may result in enforcement action against you, including a lawsuit, garnishment of your wages, offset by the of your federal income tax refund, an adverse credit record, and loss of eligibility to receive financial aid to attend other schools.

What happens if my application for discharge is approved?

If you qualify for a *complete* discharge of your loan, you are no longer obligated to make any payments on the loan. The holder of the promissory note will refund to you all monies that you paid on the loan, including any late charges and collection fees. In addition, the holder of the loan will delete any adverse credit record related to a default on the loan, and no tax refund offset or wage garnishment will take place to collect the loan. If the loan was in default, the discharge erases the default status; if you have no other defaulted loans, you regain eligibility for federal student aid. (Note that only a *portion* of your loan will be cancelled for an unpaid refund and you will responsible for paying the remaining amount on the loan.)

What can I do if my discharge application is denied?

For a closed school or unpaid refund discharge, *the holder of your loan makes the final decision on whether to discharge the loan;* that decision cannot be appealed to the U.S. Department of Education. For a false certification discharge (the school forged your signature or approved the loan when you didn't have ability to benefit, if the loan holder denied the discharge, you may ask the Department to review that denial.

You should ask the holder of the loan to arrange reasonable and affordable payments on your loan. If your loan is in default, ask about loan rehabilitation and loan consolidation. See our Web "Guide to Defaulted Student Loans"

http://www.ed.gov/offices/OSFAP/DCS/

for more information. You should also explore the following options:

Contact the State licensing agency and ask if there is a tuition recovery fund or performance bond that will cover your damages based on the school closure. If the school filed bankruptcy, you should file a claim for your loss in the bankruptcy proceeding. You may also consult an attorney about any options you may have through the court system.

How do I get my financial aid and academic records if my school closes?

If you are trying to locate your records from a closed school, you should contact the state licensing agency* in the state in which the school was located to ask whether the state made arrangements to store the records. Note that these records may be useful in substantiating your claim for a loan discharge.

You may need your academic records if you plan to attend another school and wish to have your coursework at the closed school taken into consideration. If you are applying for aid at the new school, it can check the Financial Aid History information included on the Student Aid Report that you received, or in the electronic record that it receives. If you're transferring in the middle of the year, your new school must check your information in the National Student Loan Data System.

*For a list of state licensing agencies and phone numbers, visit the Repayment area of our Web site at:
www.ed.gov/student aid

more nformation on repayment
http://www.ed.gov/studentaid

Where can I find the law governing loan discharges?

Section 437(c) of the Higher Education Act of 1965, as amended, allows the discharge of loans made under the Federal Family Education Loan (FFEL) Program (formerly known as the Guaranteed Student Loans), including Stafford, PLUS, and Consolidation Loans. The comparable section in the U.S. Code is 20 U.S.C. 1087(c). Discharge relief is also available for Federal Perkins Loans, and the William D. Ford Federal Direct Loans, including Direct Stafford, PLUS, and Federal Consolidation Loans. Congress, in the 1998 Higher Education Amendments added a partial loan discharge for a loan obtained on or after January 1, 1986, if the school fails to pay a tuition refund required under applicable Federal law and regulation when a student withdraws from school. The regulations that implement the unpaid refund discharge took effect on July 1, 2000. Regulations implementing these discharge relief options are found in §682.402(d), (e), and (l) for FFEL loans and §685.213 and 214 for Direct Loans.

For other questions ...

If you have questions that aren't answered in this fact sheet,
you may write to:

Closed School Unit /SFA/ED
P.O. Box 23800
L'Enfant Plaza Station
Washington, DC 20026

Stafford Fact Sheet

Cancellations For Bankruptcy Disability, and Death

more nformation on repayment
http://www.ed.gov/studentaid

Bankruptcy discharge

A Stafford or PLUS loan cannot be discharged in bankruptcy unless a bankruptcy court has determined that repayment of the loan would cause an undue hardship to the debtor and his or her dependents. (The length of time a loan has been in repayment is no longer a condition for a discharge.)

For Stafford/PLUS loans that are discharged in bankruptcy, the borrower no longer is required to reaffirm the loan as a condition of receiving further SFA funds.

Total & permanent disability discharge

If a Stafford borrower becomes totally and permanently disabled, the borrower's obligation to repay the loan will be canceled. To apply for cancellation on the basis of a disability, the borrower or the borrower's representative must submit an official form with a physician's certification. The physician must be a doctor of medicine or osteopathy who is legally authorized to practice in a state.

The physician must certify that the borrower is "totally and permanently disabled," as defined in the program regulations: unable to work and earn money because of an injury or illness that is expected to continue indefinitely or result in death. A borrower is *not* considered totally and permanently disabled based on a condition that existed when the borrower applied for the loan, unless the borrower's condition substantially deteriorated after the loan was made.

Conditional discharge period (for discharge applications received after July 1, 2002). If a borrower submits an application for disability discharge and the loan holder approves the application, the loan will be assigned to the Department's conditional discharge servicer for a period of 3 years. The loan will be permanently cancelled after 3 years if the borrower doesn't take out any new Perkins, Stafford, or PLUS loans and the borrower's earnings don't exceed the poverty line for a family of two (based on the Community Service Block Grant Act). Collection activity is suspended during the three-year conditional period. The borrower is required to notify the conditional discharge servicer (888-636-6401) if his/her earnings exceed the poverty level for a family of two. The Department will resume collection of the outstanding loan amount if this happens during the conditional period, or if the borrower takes out a new SFA loan during this period.

Effect of permanent discharge. When a loan is permanently cancelled for disability, no repayment will be sought from an endorser or the borrower's estate. However, if a couple has consolidated their student loans jointly, the total disability of one of the borrowers does not relieve the other of the repayment responsibility. If both borrowers have a condition (not necessarily the same one) under which they qualify for loan cancellation, the loan may be canceled.

Eligibility for new loans after discharge. A borrower whose loan debt was discharged due to total and permanent disability and who later applies for a Stafford Loan must—

- provide the school with a physician's certification that the borrower's condition has improved and the borrower is able to engage in "substantial gainful activity" such as working or attending school, and

- sign a statement acknowledging that the new loan cannot be canceled in the future based on present impairment (unless the borrower's condition substantially deteriorates).

Additional requirements for disability discharges from July 1, 2001 through June 30, 2002. If a borrower was granted a disability discharge during this period, but applies for another Stafford loan within three years of the date he or she became totally and permanently disabled, the borrower must also reaffirm (promise to repay) the previously discharged loan.

Additional requirements for disability discharges after July 1, 2002. If a borrower received a Stafford Loan disability discharge on or after July 1, 2002 and applies for a new Stafford Loan during the 3-year conditional discharge period, the borrower must provide the school with the physician's certification and the statement described on the previous page. The student must also sign a statement acknowledging that collection activity will resume on the loan that was conditionally discharged, and that the loan cannot be discharged due to an impairment that existed at the time the discharge was granted or at the time the new loan is made, unless that impairment substantially deteriorates.

Death of the borrower or student

A Stafford Loan will be canceled if the borrower dies. The lender may not collect loan payments from the endorser of the loan or the student's estate. Similarly, a PLUS Loan will be canceled if the parent borrower dies, or if the student for whom the parent borrowed the PLUS Loan dies.

The guaranty agency must base the loan discharge on an original or certified copy of the death certificate. Under exceptional circumstances and on a case-by-case basis the chief executive officer of the guaranty agency may approve the discharge based on other types of reliable documentation.

Return of payments received after cancellation

If a lender receives payments on a borrower's student loan account after the guaranty agency notifies the lender of a discharge (on the basis of total and permanent disability, death, bankruptcy, false certification, or school closing), all of these payments must be returned to the sender. At the same time, the lender must notify the borrower that there is no further loan obligation.

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

Cancellation for Child Care Providers (Stafford only)

more nformation on repayment
http://www.ed.gov/studentaid

If you received a Stafford Loan after October 7, 1998 and are a child care provider, you may qualify to have a portion of the loan cancelled through a new demonstration program. This limited program is available on a first-come, first-served basis to "new" Stafford borrowers—which means borrowers who didn't have a Stafford Loan prior to October 7, 1998 (or who no longer had an outstanding balance on a Stafford Loan on October 7, 1998 or when they took out a new Stafford Loan after October 7, 1998).

To qualify for cancellation, you must have been employed full-time as a child care provider for two consecutive years in a child care facility that serves a low-income community before the year for which you are seeking loan cancellation. You also must have an associate or bachelor's degree in the field of early childhood education. If you have received Americorps benefits for the same child care service, you are not eligible for this program.

You'll have a portion of your eligible Stafford Loans cancelled for each year that you qualify. The first cancellation amount (for two consecutive years of service) will be 20% of your total eligible Stafford Loans. For fiscal year 2001 (ending September 30, 2001), the first year of the program, all cancellations will be for two consecutive years of service. Preference will be given in subsequent years to borrowers who have previously qualified for cancellation. If you are selected in subsequent years, another 20% of your Stafford Loan debt will be cancelled after three years of service, and 30% will be cancelled in both the fourth and fifth years of service.

Cancellation applications will be reviewed by the Department. If the cancellation is approved, the Department will forward payment for the cancelled amount to the lender that holds your largest current outstanding unsubsized loan. If you have no outstanding unsubsidized loan, the Department will send the payment to the lender who holds your largest outstanding subsidized loan. Further details will be announced later this year—check our Web site at **www.ed.gov/studentaid** for updates.

Default Issues in Detail

CHAPTER 5

Since most of your current students will be eligible for in-school deferment if they're attending at least half-time, you are most likely to be involved in default issues with students who have graduated or new students who are applyig for aid at your school after having defaulted on a loan at another school.

The consequences of default have already been presented as a part of the entrance materials (Chapter 1) and in more detail in the exit materials (Chapter 2). In this chapter, we will focus on information that is relevant to delinquent borrowers and borrowers whose loans have already gone into default.

The following fact sheets on default will explain the sequence of steps when a loan goes into default, and how the borrower can get the loan out of default. If the borrower doesn't know who holds the loan, you can assist by looking up the loan information on the National Student Loan Data System. As an alternative, you can suggest that the borrower use the NSLDS Web site (requires a PIN) or call the Federal Student Aid Information Center at 1-800-4 FED AID (requires name, social security number, and date of birth).

If the borrower with a defaulted SFA loan is applying for aid at your school, the ISIR will have a comment indicating that the applicant has a defaulted loan. Your school's responsibilities with respect to loan defaults are explained in Volume 1 of the SFA Handbook (Student Eligibility).

DEFAULT ISSUES

Lender Collections

- Sends letters and makes phone calls for collection
- Lender requests pre-claim assistance from the guaranty agency (60-120 days of delinquency)
- Submits default claim after 270 days

Guarantor Collections

- Reports default to credit bureau
- Wage garnishment
- Tax refund offset
- Legal action

ED Debt Collection Service

- Collects on loans assigned by guarantor
- Same collection efforts as guarantor

Ways to Resolve Default

- Consolidate the defaulted loan
- Make satisfactory arrangements to repay the loan
- Loan rehabilitation

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

What Happens When a Loan Goes Into Default

▲ **Delinquency.** If you become delinquent — that is, you don't make a payment when scheduled — your lender will try to contact you by phone and by mail to ask that you bring your payments up-to-date. If your address and phone information is no longer accurate, the servicer or lender will use skip-tracing methods to locate and make contact with you. Your lender is required to report the delinquency to at least one national credit bureau.

▲ **Preclaims assistance from the guarantor.** After the 60th day of delinquency and no later than the 120th day, the lender must request that the loan guarantor provide "default aversion assistance" The guarantor will provide counseling and consumer information to you, including information about preventive measures to avoid default.

▲ **Final demand letter**. If your delinquency persists, the lender is required to send you a "final demand" letter, asking that you pay the entire balance of the loan in one payment.

▲ **Default claim.** If the account is more than 270 days delinquent (or 330 days delinquent for a loan repayable in installments less frequent than monthly), your lender or servicer will submit a default claim to the agency that guaranteed the loan. The guaranty agency will review the lender's collection efforts before paying the default claim.

▲ **Collection by the guarantor.** Once the guaranty agency pays the default claim, it owns the loan and will continue the collection efforts begun by the lender, contacting you through a series of letters and phone calls to make repayment arrangements. The repayment amount will include a mandatory assessment of collection costs. The guarantor may seek to garnish up to 10 percent of your disposable pay, withhold ("offset") part or all of your federal and/or state income tax refund and other payments that the federal government might otherwise make to you, and file suit against you. There is no statute of limitations on garnishment, offset action, or lawsuits to recover defaulted SFA loans, regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts.

▲ **Report to credit bureaus.** The guarantor will send you a written notice before reporting the default to a national credit bureau or assessing collection costs. The notice will include information about making a repayment agreement and give you an opportunity for an administrative review of the status of the loan. The credit bureau may continue to report the default information for up to seven years from the date the loan is first reported as a default (or the date the guaranty agency pays the default claim). If you enter repayment after default and again allow the loan to default, the credit bureau may continue to report the default information for up to seven years from the date the loan enters default the second time.

▲ **Loss of eligibility.** Once you go into default, you lose your eligibility for aid from *any* of the SFA programs, including Pell Grants. You also lose eligibility for any type of deferment on the loan. However, a lender or guarantor may grant forbearance on a delinquent or defaulted loan if you can't make payments.

▲ **Assignment to the Department's Debt Collection Service.** The guarantor may assign your loan to the U.S. Department of Education for collection. The Department's Debt Collection Service will undertake the same collection efforts as described above for the guarantor.

Resolving Your Default

Consolidation

One of the quickest ways to regain eligibility for student aid after defaulting on a Stafford or PLUS loan is to consolidate the loan. However, if you consolidate a defaulted loan, it will continue to be listed on your credit record ("defaulted loan, paid in full"). In contrast, if you make 12 consecutive monthly payments, you may be able to rehabilitate your loan (see below) and remove it from default status. For more information on how to consolidate your loans, refer to our fact sheet on loan consolidation.

Repayment arrangements & rehabilitation

There are other ways to resolve your default status if you can't consolidate your defaulted loan(s). If you make **satisfactory arrangements to repay** your debt, you may regain eligibility for SFA funds after you make six consecutive on-time monthly payments. (The payments must be voluntary—income tax offset, wage garnishment, or income or asset execution, don't count.) Reinstatement of eligibility does not bring a loan out of default, and does not restore your rights to in-school and other deferments.

If you've made six consecutive payments, the holder of your loan (usually the guaranty agency or the Department's Debt Collection Service) should inform you of the possibility of **loan rehabilitation,** which has the advantage of bringing your loan out of default. The loan holder is required to provide you with a written statement specifying a reasonable and affordable payment amount (as determined by the loan holder) and must give you an opportunity to object to the terms.

After you make 12 consecutive on-time monthly payments (which may include the six consecutive monthly payments necessary to regain SFA eligibility) the loan holder will decide if you are a good candidate for loan rehabilitation. If the loan holder elects to rehabilitate your loan, it will try to sell the loan to an eligible FFEL lender. If you've already made more than 12 consecutive monthly payments at the time you request rehabilitation, you are immediately eligible for consideration. It's very important that you continue to make payments while the holder of your defaulted loan processes the rehabilitation and transfers the loan to a lender. Because of loan processing procedures, you may have to submit more than 12 payments before the loan is rehabilitated.

Once a loan is rehabilitated, you regain eligibility for any remaining deferment benefits. For example, if you receive an unemployment deferment for one year, go into default, and then rehabilitate the loan, you are eligible for the remaining two years (not another full three) of unemployment deferment.

The guarantor must notify at least one credit bureau of the loan's rehabilitated status within 90 days of the date of rehabilitation. This is an important advantage of rehabilitation, because it removes the record of default from your credit history. If you have questions about loan rehabilitation, you should contact the agency holding the defaulted loan.

Regaining eligibility for aid

If you have made satisfactory repayment arrangements to repay a defaulted loan and then submit the *Free Application for Federal Student Aid*, you will get a Student Aid Report (SAR) with a warning that you will only remain eligible for federal student aid if you continue to make scheduled payments on time. If the SAR still shows you to be in default, the financial aid administrator at your school may still award you SFA funds, if the loan holder provides written confrimation that you have made satisfactory arrangements to repay the loan. If you regain eligibility during an enrollment period (if the sixth payment under a satisfactory repayment arrangement is made after the start of an enrollment period, for example), you regain eligibility for the entire period of enrollment (usually an academic year).

Reference: Special Default Cases

Uncollectable loans

A loan on which collection activities have ceased after several collection efforts have failed is still considered a defaulted loan for purposes of borrower eligibility. If you want to receive further aid from the SFA programs, you must reaffirm the loan amount and make satisfactory repayment arrangements.

Compromise agreements

If a you reach a compromise agreement with the holder of your loan to settle the debt for less than the total amount due, you may be eligible for additional federal student aid once the compromised amount of the debt is paid.

Effect of loan cancellation

If a defaulted loan is canceled for reasons such as bankruptcy, school closure, or false certification, the loan is no longer considered to be in default, and you will become eligible for further federal student aid. In addition, any adverse credit history will be deleted from credit bureau records.

If your defaulted loan is canceled because of total and permanent disability, you will be eligible for further loans on a conditional basis. (See our fact sheet on disability cancellations.)

Loans subject to court judgments

If you want to rehabilitate or consolidate an FFEL on which a court judgment has been secured, you must sign a new promissory note prior to the sale of the FFEL to an eligible lender. (A guaranty agency may not exclude borrowers with judgment accounts from consolidating their defaulted loans.) Because a judgment is not always repaid under the original terms and conditions of the FFEL promissory note, the judgment is not viewed as an eligible FFEL. Therefore, rehabilitation or consolidation of a loan on which a court judgment has been secured requires the guaranty agency to vacate the judgment and to convert the judgment debt into an eligible FFEL. This conversion takes place when the you make a new promise to repay the debt by signing an FFEL promissory note for the amount due on the judgment.

Loan Consolidation in Detail

CHAPTER 6

These fact sheets for borrowers cover the provisions for Federal Consolidation Loans made through private lenders in the FFEL program. For information about consolidating through the Direct Loan Program, see the Direct Loan Consolidation Guide.

Once a borrower leaves school, he or she may consider consolidation as an option to make repayment easier. A Stafford borrower should contact one of his or her lenders to find out about Federal Consolidation Loan. (Not all Stafford lenders will make Federal Consolidation Loans.)

The first two fact sheets (6.1 and 6.2) provide most of the information a borrower will need when deciding whether to consolidate his or her student loans. In the subsequent fact sheets, we've included information about less common issues in consolidation.

From your school's perspective, you may be most interested in the discussion of how Consolidation Loans affect the borrower's future loan limits (Fact Sheet 6.2), and how a borrower can consolidate defaulted loans to regain student aid eligibility (Fact Sheet 6.3).

Student Loans that can be included in Consolidation

Current SFA Loans

- Perkins Loans
- Stafford Loans
- PLUS Loans (if the parent borrower is consolidating)

Loans from Health and Human Services

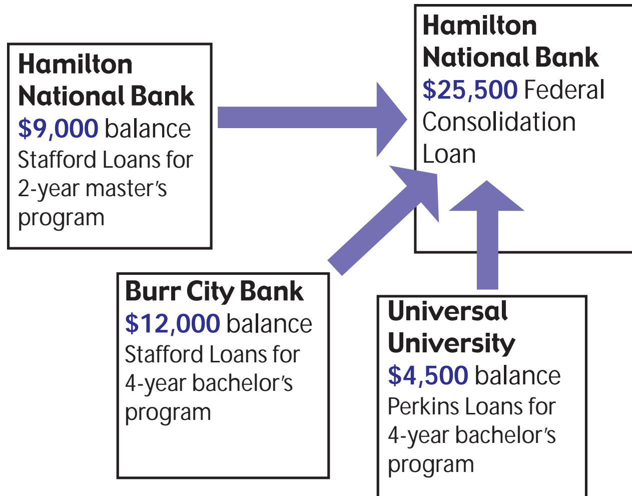
- Health Education Assistance Loans (HEAL—discontinued)
- Health Professions Student Loans
- Nursing Student Loans

Older SFA Loans

- National Direct/Defense Student Loans
- Supplemental Loans for Students—SLS
- Auxiliary Loans to Assist Students—ALAS
- Guaranteed Student Loans

Federal Consolidation Loans In A Nutshell

If you have several student loans, you can convert them into a single Federal Consolidation Loan with one interest rate and repayment schedule. When a lender agrees to consolidate your loans, it will pay off the outstanding balance (including the remaining principal and interest) on your existing loans and make one Federal Consolidation Loan to replace them.



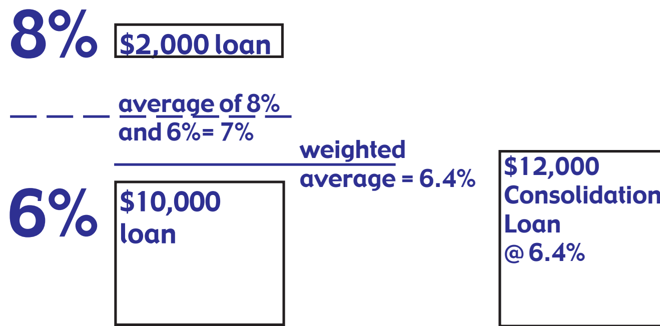
- You can consolidate student loans that are in their grace period, as well as loans that are in repayment. However, you lose the benefit of any remaining grace period.
- You're not required to consolidate all of your student loans (Stafford, PLUS, Perkins, Health Professions Loans, and older SFA loans). However, if you exclude a defaulted loan from consolidation, you must make satisfactory arrangements to repay the defaulted loan.
- There are no insurance premiums or other fees for loan consolidation.
- Unlike Stafford and PLUS loans, which have variable interest rates that are recalculated each year, the interest rate on your Federal Consolidation Loan is fixed for the life of the loan.
- The interest rate on a Consolidation Loan is the "weighted average" of the interest rates on the loans being consolidated. In the example, if the Stafford interest rate is 7.5% at the time of consolidation, the rate on the Consolidation Loan (including the 6% Perkins loan) would be 7.235%.
- Depending on the loan amount, Consolidation loans can be repaid over 10-30 years. This may be longer than the repayment period on your current loans. A longer repayment period means a lower monthly payment—but it also means that you'll be paying more interest over the life of the loan, so your total repayment amount will be higher. If you're comfortable with higher monthly payments, you have the right to ask for a shorter repayment period. You can also choose to prepay the loan.
- In addition to the standard repayment plan, a lender must offer graduated, and income-sensitive repayment plans for Federal Consolidation Loans. If you expect a significant increase in income in the next few years, the graduated and income-sensitive plans are a way to start out with lower monthly payments, with higher payments later on, when you can afford them.
- There's no grace period—the first payment on your Consolidation Loan will usually be due within 60 days of the date of disbursement.
- You get the same deferment and forbearance provisions as for a Stafford Loan—in particular, the in-school deferment and the unemployment and economic hardship deferments.

Terms and Conditions

Federal Consolidation Loans

Interest rate: average of current loans

The interest rate on a Federal Consolidation Loan is the weighted average of the interest rates of the loans being consolidated. A "weighted average" means that the interest rate on a large loan counts more in the average than the interest rate on a smaller loan. For instance, if you have $10,000 in loans at a 6% interest rate and $2,000 in loans at an 8% interest rate, the weighted average for the $12,000 Federal Consolidation Loan will be 6.4%. The average is rounded to the nearest one-eighth of 1 percent, but it cannot exceed 8.25%.



Length of repayment period

The length of the repayment period for a Federal Consolidation Loan is usually longer than the traditional 10-year period for Stafford Loans. In fact, the payment period can be as long as 30 years.

Consolidation Amount	Maximum repayment period
Less than $7,500	10 years
$7,500 to $9,999	12 years
$10,000 to $19,999	15 years
$20,000 to $39,999	20 years
$40,000 to $59,999	25 years
$60,000 or more	30 years

Repayment plans and total interest

The advantage of a longer repayment period is lower monthly payments. On the other hand, you'll be paying more in interest charges over a longer repayment period. For instance, if you consolidate $10,000 in student loans that you were going to repay in 10 years, your total repayment amount will increase from $13,626 over 10 years to $15,680 over 15 years. (Based on a 6.5% interest rate.) The additional interest has an even greater effect for larger loan amounts. For instance, consolidating $20,000 in Stafford loans to a 15-year Federal Consolidation Loan will increase your total repayment from $27,252 to $35,787.

To make sure that you understand your choices, you should use an on-line repayment calculator that shows you the total interest you'll pay for repayment periods of different length. If you're concerned about the amount of interest you'll be paying, you do have the option to request that

Consolidation calculators

Direct Loans –http://loanconsolidation.ed.gov/

FFEL–http://mapping-your-future.org/features/dmconsolid.htm

your lender set a shorter repayment period on your Consolidation Loan. On the other hand, you may decide to accept the higher interest cost over the long term in order to reduce your current monthly payment.

If you're having difficulty making your current loan payments but expect your income to increase significantly in a few years, there are alternatives to consolidation. For instance, you may want to switch your current loans to a graduated repayment plan or an income-sensitive repayment plan, rather than consolidating.Consolidation and loan limits

There are no minimum or maximum loan limits that apply to Federal Consolidation Loans. The loan's principal balance equals the sum of the amounts that your Consolidation lender will pay to the holders of the loans being consolidated. For instance, if you consolidate undergraduate Stafford Loans that have a total remaining balance of $12,000 with $15,000 in graduate Stafford Loans, you will owe a total of $27,000 on your Consolidation Loan.

Consolidation doesn't change your aggregate loan limits—your Consolidation Loan counts towards the aggregate Stafford Loan limit, just as any individual loans would. However, keep in mind that your outstanding balance on any unsubsidized Stafford loans that were consolidated may have included capitalized interest, which is *not* counted towards your aggregate loan limit. Thus, you may need to work with your school to determine whether the amount of your Consolidation loan shown in NSLDS includes capitalized interest.

Deferment and forbearance options

All deferment and forbearance options available to FFEL Stafford and PLUS borrowers are available to a borrower who received a Consolidation Loan after July, 1993. Check your promissory note or our Web site for deferment and forbearance options.

If you consolidate subsidized as well as unsubsidized Stafford Loans, you will still get the interest benefits on the portion of the Consolidation loan that represents the original subsidized Stafford Loans.*

For instance, if you consolidate $4,000 in subsidized Stafford loans with $6,000 in unsubsidized Stafford loans, then 40% of your Consolidation Loan would be considered to be subsidized and would be eligible for the interest subsidy during periods of deferment. If you get a deferment later on, when the outstanding balance on your Consolidation Loan is $8,000, then interest will accrue on the $4,800 that represents the portion of the original unsubsidized loan.

As with Stafford Loans, you may pay the interest on a Consolidation loan as it accumulates during a period of forbearance or unsubsidized deferment, or postpone paying the interest and have it capitalized (added to the principal owed) when you resume repayment.

Cancellation options

It's important to know that Consolidation Loans don't have a cancellation/forgiveness provision for teachers at low-income schools or for child-care providers. Therefore, you lose those options when you consolidate your Stafford Loan. However, all of the other cancellation provisions that are available for a Stafford Loan, are also available with a Consolidation Loan, including the cancellations for total and permanent disability, unpaid school refund, forgery of aid documents, and attending a school that closed. If some but not all of your consolidated loans are affected by consumer problems at your school, only the portion of your Consolidation Loan that is made up of the affected loans will be cancelled.

*Note that this is a recent provision—consolidation loans made before November 13, 1997 did not have any interest benefits.

more on consolidation & deferment/fobearance options:
www.ed.gov/studentaid

look up your loan amounts: **nslds.ed.gov**

Consolidation Issues: Defaulted Loans, Joint Consolidation

More information under "Repaying your loan"
www.ed.gov/studentaid

Consolidating a defaulted loan

You can even consolidate a defaulted loan, as long as no court judgment or wage garnishment order has been issued against it.

If you agree to repay the Consolidation Loan under an income-sensitive repayment plan, you can consolidate the loan without making any additional payments. However, if you want a standard, extended, or graduated repayment plan, you must first make three voluntary, on-time, consecutive monthly payments to the current holder of your defaulted loan under a "satisfactory repayment arrangement" before you may consolidate your loans. (These arrangements must be satisfactory to the holder of the loan.)

If you're consolidating a defaulted loan, the payoff amount may include, in addition to unpaid principal and interest, late charges and collection costs applied to those loans. A guaranty agency (or the Department's Debt Collection Service, if it holds the loan) may assess late fees of up to 6% per overdue installment and collection charges of up to 18.5% of the principal and interest that is outstanding at the time of loan payoff certification on a defaulted loan that is to be included in a Federal Consolidation Loan.

Joint consolidation by married couples

You may consolidate your student loans with those of your spouse if both of you agree to be held jointly and separately liable for repayment of the Consolidation Loan, regardless of the amount of your individual debts and regardless of any future change in marital status. If your spouse dies, becomes totally and permanently disabled, or your spouse's repayment obligation is suspended or discharged because of bankruptcy, you will still be obligated to repay the loan.

Both you and your spouse must meet the eligibility requirements to qualify for a Consolidation Loan. Only one of you needs to certify that the lender holds at least one of the outstanding loans that are being consolidated, or that you have unsuccessfully sought a Consolidation Loan from the your current loan holders.

To receive a deferment, forbearance, or have the loan cancelled, both you and your spouse must meet the qualifying conditions. The only exceptions are when all or part of the loan is cancelled because of school closure, an unpaid refund, or false certification of the loan. In these cases, only one of you needs to qualify. However, only the portion of the Consolidation Loan affected by one of these conditions may be cancelled.

Consolidation Issues: Perkins, PLUS, older loans

Consolidating a Perkins loan

Some borrowers are afraid that they'll "lose" the lower Perkins interest rate if they include a Perkins or NDSL in a Consolidation Loan. Because the interest rate on a Consolidation Loan is the weighted average of the interest rates on the prior loans, there should be no significant difference in the amount of interest you pay on that Perkins amount before and after it's consolidated.

However, you should bear in mind that you will lose some of the deferment and cancellation provisions on your Perkins loan. For instance, the Consolidation Loan doesn't have cancellation provisions for VISTA and Peace Corps volunteers, teachers at low-income elementary or secondary schools, or for full-time nurses, medical technicians, and law enforcement/corrections officers.

Because Consolidation Loans may have repayment periods as long as 30 years, your monthly repayment amount on the Perkins portion of your loan may be less than what you were previously paying on that loan. However, remember that extending the repayment period usually increases the total amount of interest that you'll be paying on the loan.

Endorser for PLUS loan consolidation

If you had to get an endorser on the PLUS portion of the original Consolidation Loan, you must use the same endorser for the added PLUS Loan. If an endorser was not originally required but is required for the added PLUS loan, the endorser must agree to repay the entire PLUS Consolidation Loan.

Provisions for older loans

The interest rate for a Federal Consolidation Loan made from July 1, 1994 to November 13, 1997 was the weighted average of the interest rates on the loans being consolidated (rounded up to the nearest whole percent) or 9%. When calculating the weighted average of interest rates, the consolidating lender must use the interest rates that are in effect for each loan at the time the loan is paid in full for consolidation.

The interest rate for a Federal Consolidation Loan made from November 14, 1997 to September 30, 1998 is the bond equivalent rate of 91-day Treasury bills sold at final auction before June 1, plus 3.1%. The interest rate may not exceed 8.25%.

If your lender received your Consolidation Loan application before January 1, 1993, you are responsible for the interest on the loan during periods of deferment. If your lender received your Consolidation Loan application from January 1, 1993 through August 9, 1994, the Department pays the interest on your loan during periods of deferment. (These interest payments do not cover any portion of the Consolidation Loan that represents a former HEAL loan.) For loan applications received on or after August 10, 1994, the Department pays the interest on the Consolidation Loan during periods of deferment if the loan is made up exclusively of subsidized Stafford Loans.