

Student loan management, loan repayment and loan default

Before you borrow, please read this. It does not matter if you have already borrowed on a student loan or if you are a new borrower, please pay particular attention to this guide as it will provide valuable information and hopefully keep you out of any legal issue's concerning your student loan. This guide will help answer most of your questions and give you resources to assist you while in school, during a leave of absence/withdrawal and after completion of your program.

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1 The difference between Subsidized, Unsubsidized and PLUS Loans?

Direct Subsidized Loans are available to undergraduate students with financial need.

Your school determines the amount you can borrow, and the amount may not exceed your financial need. For a subsidized loan, the U.S. Department of Education pays the interest while you're in school at least half-time, for the first six months after you leave school (referred to as a **grace period***), and during a period of **deferment** (a postponement of loan payments).

*Note: If you receive a Direct Subsidized Loan that is first disbursed between July 1, 2012, and July 1, 2014, you will be responsible for paying any interest that accrues during your grace period. If you choose not to pay the interest that accrues during your grace period, the interest will be added to your **principal** balance.

Here's a quick overview of Direct Unsubsidized Loans:

- Direct Unsubsidized Loans are available to undergraduate and graduate students;
- there is no requirement to demonstrate financial need.
- Your school determines the amount you can borrow by considering the cost of attendance and other financial aid you receive.
- For an unsubsidized loan, you are responsible for paying the interest during all periods. If you choose not to pay the interest while you are in school and during grace periods and deferment or **forbearance** periods, your interest will accrue (accumulate) and be capitalized (that is, your interest will be added to the principal amount of your loan).

Here's a quick overview of Direct PLUS Loans:

PLUS loans are federal loans that graduate or professional degree students and parents of dependent undergraduate students can use to help pay education expenses.

- The U.S. Department of Education is the **lender**.
- The borrower must not have an **adverse credit history**.
- Loans have a fixed **interest rate**.
- The maximum loan amount is the student's cost of attendance (determined by the school) minus any other financial aid received.

Current interest rates and fees

Click [here](#) for the current interest rates and fees.

Some helpful tips:

- Prior federal loans and financial aid history—If you already have federal student loans and would like to check the interest rate, servicer information, and other financial aid history, go to the National Student Loan Data System.
- Understanding interest rates and fees—Find out how interest is calculated.
- Information for military members—If you are a member of the military, you may be eligible for special interest benefits relating to your federal student loans.

2 How Much Should I Borrow?

We strongly encourage borrowers to carefully weigh the need for loans and to borrow only what is needed. We encourage you to estimate and plan your repayment obligations prior to borrowing. Borrowing more than what is needed means you must repay more later. Your monthly payments will be higher, and you may be paying over a longer period due to the interest that accrues on your loans.

For federal student and parent loans, borrowers should be aware of the repayment options that are available. In addition, there are several deferment or forbearance provisions available once the loan is in repayment. For some qualifying majors and professions, such as teaching, federal and state loan cancellation provisions can also be beneficial.

[Click here](#) for estimate, repayment, deferment, and forbearance options.

[Click here](#) for Loan Forgiveness Program Information.

Remember, loans must be repaid even if you did not complete your program and/or degree.

3 How Do I Track and Manage My Loans?

To keep track of your student loans or to contact your loan servicer for repayment, log onto to the National Student Loan Data System (NSLDS) at www.nsls.ed.gov or call the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243; TTY 1-800-730-8913). The PIN number that you used as your electronic signature for the FAFSA can also be used to gain access to NSLDS.

This website will not only show you all the federal and private loans you borrowed, but also who the servicer is for your loan(s). The servicer is the entity you will be corresponding with to coordinate repayment.

To see a list of Federal Student Aid servicers for the Direct Loan Program and for FFEL Program Loans purchased by the U.S. Department of Education, go to the [Loan Servicer page](#).

If you have borrowed loans in the past through the FFEL Program (i.e., a federal loan serviced by Bank of America, Wells Fargo, Citibank, etc.) these loans have most likely been sold to a third-party processor. We cannot stress enough how important it is to know your loan servicer. Please refer to “Understanding the PUT Program” under the loan consolidation section.

4 How Do I Consolidate My Loans?

If you are expecting to borrow a Federal Subsidized, Unsubsidized or Federal PLUS Loan for this coming year and have a Federal Family Educational Loan, Subsidized, Unsubsidized or PLUS Loans from prior years, you will have at least two lenders to repay when you graduate: your selected private lender and the federal government.

The Direct Lending Consolidation program offers a way for you to combine both loans into one consolidation loan with one point of repayment. This loan consolidation program will be available to you once you graduate and begin thinking about repayment.

There are advantages and disadvantages to loan consolidation, and we recommend that you research this option carefully before proceeding. If you have questions about whether consolidation is right for you, please contact the Direct Loan Consolidation Loan Information Center at www.loanconsolidation.ed.gov.

Who Is Eligible for Loan Consolidation?

To qualify for a Direct Consolidation Loan, borrowers must have at least one Direct Loan or Federal Family Education Loan (FFEL) that is in grace, repayment, deferment or default status. Loans that are in an in-school status cannot be included in a Direct Consolidation Loan.

What Is PUT Program?

Since 2008 Stafford lenders have sold some of their loans to the Department of Education to build liquidity in the market and provide more loans to students. This is called the Loan Purchase Commitment (PUT) Program.

As a result, continuing students may have already received communication from the Department of Education explaining the purchase. These loans are not considered Direct Loans but continue to be part of the Federal Family Education Loan Program (FFELP).

It is important to note that loans borrowed in the future may not have the servicer as loans you have borrowed already. This means that when you begin to make payments on your loans after graduation you may be making multiple payments to multiple entities.

6 How Do I Repay My Student Loans?

Your loan servicer will provide information about repayment and will notify you of the date your loan repayment begins. It is very important that you make your full loan payment on time either monthly (which is usually when you'll pay) or according to your repayment schedule.

If you don't, you could end up in default, which has serious consequences (see [What is Loan Default?](#)). Student loans are real loans—just as real as car loans or mortgages. You have to pay back your student loans. Can you repay your loans while in school? Yes! Contact your loan servicer through www.nslds.ed.gov.

7 When Should I Begin Repaying My Loans?

After borrower's graduate, leave school, or drop below half-time enrollment, loans that were made for that period of study have several months before payments are due. This is called the "grace period".

Grace periods extends to 6 months after borrowers leave school or ceases to be enrolled in at least half-time enrollment for 6 months. Grace periods can also extend up to 12 months; however, you must contact your loan servicer directly.

During the grace period, no interest accrues on subsidized loans. Interest accrues on unsubsidized loans during grace periods, and this interest is capitalized when borrowers enter repayment.

Borrower repayment period begins the day after their loan grace period ends. First payment will be due within 60 days after the repayment period begin.

Each loan has only one grace period. If borrowers return to school after the grace period has expired, the borrower qualifies for deferment while borrowers are enrolled but return to repayment after borrower leave school. There is no additional grace period.

You can make payments on your student loan while you are still enrolled. If you have unsubsidized loans, you can make payments on your interest that is accruing.

8 What Repayment Plans Are Available to Me?

When it comes time to start repaying your student loan(s), you can select a repayment plan that's right for your financial situation. Generally, you'll have from 10 to 25 years to repay your loan, depending on which repayment plan you choose.

Standard Repayment

With the standard plan, you'll pay a fixed amount each month until your loans are paid in full. Your monthly payments will be at least \$50, and you'll have up to 10 years to repay your loans.

Your monthly payment under the standard plan may be higher than it would be under the other plans because your loans will be repaid in the shortest time. For that reason, having a 10-year limit on repayment, you may pay the least interest.

Extended Repayment

Under the extended plan, you'll pay a fixed annual or graduated repayment amount over a period not to exceed 25 years. If you're a FFEL borrower, you must have more than \$30,000 in outstanding FFEL Program loans. If you're a Direct Loan borrower, you must have more than \$30,000 in outstanding Direct Loans. This means, for example, that if you have \$35,000 in outstanding FFEL Program loans and \$10,000 in outstanding Direct Loans, you can choose the extended repayment plan for your FFEL Program loans, but not for your Direct Loans. Your fixed monthly payment is lower than it would be under the Standard Plan, but you'll ultimately pay more for your loan because of the interest that accumulates during the longer repayment period.

This is a good plan if you will need to make smaller monthly payments. Because the repayment period will be 25 years, your monthly payments will be less than with the standard plan. However, you may pay more in interest because you're taking longer to repay the loans. Remember that the longer your loans are in repayment, the more interest you will pay.

Graduated Repayment

With this plan, your payments start out low and increase every two years. The length of your repayment period will be up to ten years. If you expect your income to increase steadily over time, this plan may be right for you.

Your monthly payment will never be less than the amount of interest that accrues between payments. Although your monthly payment will gradually increase, no single payment under this plan will be more than three times greater than any other payment.

To calculate your estimated loan payments with Standard, Extended or Graduated Repayment, go to the [Repayment plan calculator](#).

Income Based Repayment (IBR) – Effective July 1, 2009

Income Based Repayment is a new repayment plan for the major types of federal loans made to students. Under IBR, the required monthly payment is capped at an amount that is intended to be affordable based on income and family size.

You are eligible for IBR if the monthly repayment amount under IBR will be less than the monthly amount calculated under a 10-year standard repayment plan. If you repay under the IBR plan for 25 years and meet other requirements you may have any remaining balance of your loan(s) cancelled.

Additionally, if you work in public service and have reduced loan payments through IBR, the remaining balance after ten years in a public service job could be cancelled. For more important information about IBR go to [IBR Plan Information](#).

9 What Is Loan Default?

Loan default is failure to repay a loan according to terms of the Master Promissory Note. There can be serious legal consequences for student loan defaulters. There are different options to prevent falling into default status. Below you can find some options.

Deferment = a postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue for subsidized loans. This request can be made if you are returning to school and are enrolled in at least half-time status. For Deferment options, click here. Please contact your loan servicer for more information.

Forbearance = a period during which your monthly loan payments are temporarily suspended or reduced.

You may qualify for forbearance if you are willing but not able to make loan payments due to certain types of financial hardships.

Repayment Plan = Changing repayment plans is a good way to manage your loan debt when your financial circumstances change. For example, you can usually lower your monthly payment by changing to another repayment plan with a longer term to repay the loan. There are no penalties for changing repayment plans.

10 What If I default On My Loan?

If you default, it means you failed to make payments on your student loan according to the terms of your promissory note, the binding legal document you signed at the time you took out your loan. In other words, you failed to make your loan payments as scheduled.

Your school, the financial institution that made or owns your loan, your loan guarantor, and the federal government all can take action to recover the money you owe.

Consequences Of Default

Borrowers who default on student loans face serious consequences. Subsidized & Unsubsidized Loans are considered in default after 270 days without payment. At the time of default, outstanding interest is capitalized, and collection fees may be added, resulting in a loan balance that is higher than the amount borrowed. Defaulted loans are reported to credit bureaus, causing borrowers to

sustain long-term damage to their credit rating. Defaulters may also face difficulty in securing mortgages or car loans, may have their wages garnished, and their federal income tax refunds and other federal payments seized. Until the default is resolved, collection efforts continue, and the defaulter will be ineligible for additional federal student aid. You can also be sued.

11 How Do I Get Help with My Loan Problems?

If you are having a problem with your federal student loan, contact the FSA Ombudsman at the US Department of Education. The FSA Ombudsman is dedicated to helping students resolve disputes and other problems with federal student loans.

The FSA Ombudsman will research your problem in an impartial and objective manner and will try to develop a fair solution. The FSA Ombudsman does not have the authority to impose a solution. Nevertheless, many students have found the FSA Ombudsman to be helpful in resolving disputes with lenders.

You can contact the FSA Ombudsman by phone at 1-877-557-2575, by fax at 1-202-275-0549, by mail at U.S. Department of Education, FSA Ombudsman, 830 First Street, NE, Fourth Floor, Washington, DC 20202-5144, by visiting fsahelp.ed.gov or by e-mail at fsaombudsmanoffice@ed.gov.

For more information and to learn what actions to take if you default on your loans see the [Department of Education's Default Resolution Group Website](#).

Important: Remember, you are responsible to repay your student loans as agreed on your signed Master Promissory Note(s). Please keep your contact information up to date with your loan servicer to ensure you receive important correspondence. When in doubt, contact your loan servicer. Staying in touch with your loan servicer will maintain a good relationship and decrease the chances of loan default.

12 What If I Need Legal Help?

If you are seeking legal representation, please read more information on "[Contacting the Ombudsman](#)."