

Repaying Federal Student Loans

By Mike Killian

Student loans have no limit on statute of limitations and cannot be discharged even with bankruptcy except in the case of extreme and permanent hardship. Extreme hardship is very difficult to prove and permanent hardship is even more difficult to prove. On the other hand, there are exceptions but I recommend consulting with an attorney before pursuing this course.

Additionally continued payment default can mean damaged credit, additional collection fees of up to 25%, loss of tax refund, 10% loss of paycheck, and even lawsuits filed against you. Sounds pretty bleak, doesn't it? But per Nolo Press:

"There is much you can do to take control of your own loan situation if you have the right information, a little perseverance and a large amount of patience.... Ignoring your loans will not make them go away. Eventually, you will have to deal with them. Further delay just increases the amount you owe, as interest and fees and costs for collection mount up."

BASICS

To understand student loan repayment, it is first necessary to understand student loans overall. I have found the following breakdown to be very helpful in determining what is available.

- Besides "work-study programs", there are grants and loans. Grants do not have to be paid back, loans do. Federal loans can be "subsidized", which means the government pays for the interest while you are in school. Otherwise, the loan is "un-subsidized", meaning you pay the interest yourself. Subsidized loans are generally given to students with "greater demonstrated need".
- All federally guaranteed student loans fall under three main categories: Ford Direct Lending Program (FDLP), Campus Loans, and Federal Family Education Loan Program (FFELP).
 1. **FDLP**- These are loans directly from the federal government and paid back to the federal government.
 2. **Campus Loans**- A small amount of federal funding is given annually to institutions which can be loaned out to students, paid back to the institution, and re-loaned to other needy students. They are often called Perkins Loans or National Direct/Defense Student Loans (NDSL).
 3. **FFELP**- Department of Education issues through your school a list containing an approved network of commercial lenders who provide loans to students. These loans are most often labeled direct loans, Stafford Loans, Guaranteed Student Loan (GSL), Federal Insured Student Loan (FISL), Plus Loan (for parents only), SLS Loan, and consolidation loan.

There are also multiple potential repayment schedules. Therefore, if you find yourself unable to deal with your current repayment plan, do not assume you are locked into that plan. Four of the most common options are:

1. Standard- fixed repayment above \$50 for 3-10 years.
2. Graduated- repayment begins low and increases over the years.
3. Extended- repayment from 12-30 years depending on the amount.
4. Income Contingent- each year's repayment amount is based upon your income from the previous year.

DEFAULT

Your loan is considered in default when there has been neither payment nor attempt to arrange for payment for 180 days. To get out of default, the student must request a "reasonable" repayment schedule from the lender. The lender will consider the request based upon information supplied by the student and if the request is approved, the lender will suggest a new amount.

There is no amount set by the term "reasonable" but if accepted by the student, the new plan must not reach default a second time. Accordingly, if the amount is not acceptable, re-contact the lender before agreeing to the schedule. **WARNING!** You do not get a second chance to get your loan out of default. Therefore, agreeing to the terms is essential. Also be aware that though repayment amounts are rarely set below \$50, theoretically a "reasonable" amount could be as low as \$5.

When you have completed six on time payments, you can apply for a new federal loan. However, to be completely out of default, you must make 12 consecutive on time payments. But once your loan is out of default, you have other options available to you such as deferment, forbearance, consolidation, and even cancellation.

Special Note: Perkins Loan borrowers who are in default have recently been offered another option called "Rehabilitation". A borrower can make arrangements to make 12 "on time" monthly payments after which his/her loan default record is removed from credit bureau files and he/she is back in repayment status. Rehabilitation can be attempted any number of times (if the borrower does not meet the 12 on time payments) but it can only be accomplished once. If borrower goes into default again after completing Rehab, there is no second chance. This is only available on Perkins loans in default.

DEFERMENT & FORBEARANCE

If your loan is not in default and you are having difficulty making ends meet, you may be eligible to postpone payment. Forbearance is an approved general delay from making payments for a set period of time but not for any particular reason. Forbearance is generally requested only when deferment is not or cannot be used. With forbearance, interest continues to accrue. A deferment is similar but does not accrue any interest. But

the major difference between the two is that a deferment includes a very specific reason for the delay.

The most commonly approved reasons for deferment include:

- Economic Hardship, Unemployment
- In-School at least Half-Time, Graduate Fellowship Program, Rehabilitation Training
- Parental Leave, Working Mother
- Public Service Deferment for Armed Forces, Action Program, Tax Exempt Volunteer Program, Public Health Service Program, Peace Corp, NOAA
- Education Related Deferment for Intern ship/Residency Program, Teacher Shortage Area, PLUS Loan student In-School, Fellowship, or Rehabilitation
- Temporary Total Disability Deferment Request

CANCELING

Obviously, there must be extended circumstances to have a loan cancellation approved. However, cancellation over deferment or forbearance sometimes is needed and is not unusual. Qualification is done via application from your lender or through the Department of Education's Debt Collection Services Office (phone: 800-621-3115). Be certain to return all needed support documentation.

Reasons for cancellation are more intense though somewhat similar to reasons for deferment:

- Total disability
- Death of the member
- Member of armed services
- Certain full time teachers, nurse, medical tech, law enforcement, correction officer
- Certain professions working with disabled, or low-income high-risk children and their families
- Certain staff and volunteers for Head Start VISTA, or Peace Corp

CONSOLIDATION

Transferring credit balances to the wrong lower interest loan is tantamount to accepting a life preserver from a shark. Similarly, choosing the wrong consolidation loan savagely threatens the point of consolidating at all.

However, if you know what you are doing, consolidating can offer one more option that can lower your payment by combining loans. Most consolidation lenders, however, will not consolidate less than \$7500 total in student loans.

The repayment period of most of these loans is usually 12-30 years and can be a fixed monthly payment or graduated over time. Obviously the longer the extended repayment period, the more costly the loan. The obvious solution to consolidation loan is to accelerate the payoff as soon as possible and not drag the loan out for the full period.

Some questions you might ask of a potential lender include:

- Does the lender offer an interest rate reduction for on-time payment?
- Will your lender tailor your repayment plan to meet your financial needs should you want to pay off the loan more quickly?
- Are you able to get instant information on whether you qualify or if your loan's been approved? Can your loan be processed over the Internet? What kind of turnaround time can you expect?
- Is your customer service calls immediately answered by a live human being?
- Does the lender offer a range of plans to meet your specific income and financial needs?

Picking a student loan consolidator without research is like buying a used car without test-driving it, or purchasing a house without an inspection. **DO YOUR HOMEWORK FIRST!**

SPECIAL NOTE: This article is being given to Accelerated Trust, Inc. Anyone with similar concerns or in anyway in need of assistance can call Accelerated Toll Free at 800-810-5250 and discuss their options for getting out of their economic situation.