

## A guide to repaying your student loan

### TIP

Many lenders offer incentives, usually in the form of lower interest rates, if you consistently pay on time or agree to direct pay and have your payments automatically withdrawn.

### BE AWARE OF THE CONSEQUENCES OF DEFAULT

Defaulting on a student loan is serious and can put a major dent in your financial future. If you're having difficulty making your payments, contact your lender or the holder of your loan at once to avoid these serious consequences:

- ▶ Your delinquency may be reported to a national credit agency, which could damage your credit rating and ability to borrow.
- ▶ You may lose the privilege of monthly payments and the full amount of your loan may become due and payable.
- ▶ Your payments may become larger and your ability to pay even more strained.
- ▶ You may be sued by the guarantor and the federal government.
- ▶ Your wages and tax refunds may be garnished.
- ▶ You may be assessed collection charges and attorney fees.
- ▶ You may lose your eligibility for additional federal student financial aid.
- ▶ Your belongings may be repossessed.
- ▶ You will lose the option of deferment and forbearance.
- ▶ You may not be eligible for certain state and federal jobs.
- ▶ You may be subject to state offsets or federal Treasury offsets.

### RESOLVING A DISPUTE

If you have a serious problem with your student loan and have not been able to resolve the issue through normal channels, you may contact an ombudsman.

An ombudsman provides an impartial, informal and confidential means of resolving a dispute. The intervention of the ombudsman doesn't replace normal appeal or review processes, but augments them by informing and advising borrowers. You may reach the federal ombudsman at toll free 877.557.2575 or by going to [www.sfahelp.ed.gov](http://www.sfahelp.ed.gov).

### Sample Loan Repayment Chart

Standard repayment plan at 8.25% for 10 years

Total Amount Borrowed	Monthly Payment	Total Repaid (PRINCIPAL + INTEREST)
\$2,625	\$50	\$3,243
\$6,625	\$82	\$9,715
\$10,000	\$123	\$14,718
\$20,000	\$245	\$29,437
\$30,000	\$368	\$44,155
\$50,000	\$613	\$73,591

### BUDGET YOUR MONEY WISELY

Your personal budget is like a roadmap. It tells you where you are financially and helps you determine where you can go. Get a clear picture of your financial landscape and ensure your ability to repay your student loan by developing a monthly spending plan. Here's how to begin:

- ▶ Calculate your monthly income.
- ▶ Estimate your anticipated expenses.
- ▶ Determine what's left.
- ▶ Keep a log of your actual expenditures to see if you're sticking to your budget.

To assist you with your spending plan, turn to EdWise®, EdFUND's online financial planning guide at [www.edwise.org](http://www.edwise.org).

### HELPFUL WEB SITES

For more information on your repayment options, check out your lender's Web site or visit these sites:

[www.edfund.org](http://www.edfund.org)

[www.edwise.org](http://www.edwise.org)

[www.nsls.ed.gov](http://www.nsls.ed.gov)

[www.studentaid.ed.gov](http://www.studentaid.ed.gov)

[www.mapping-your-future.org](http://www.mapping-your-future.org)

[www.finaid.org](http://www.finaid.org)

### TIP

In some cases, a portion or all of your Stafford or Perkins loan may be forgiven if you take on certain jobs after you graduate. Contact your lender for more information or go to [www.studentaid.ed.gov](http://www.studentaid.ed.gov).



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Toll free 877.2EDFUND  
(877.233.3863)

[www.edfund.org](http://www.edfund.org)

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**t**his guide will help you understand the importance of repaying your student loan on time. It includes information on your options, your rights and responsibilities as a borrower, and the consequences of default. Please read it carefully to be sure you're prepared for the repayment process. And remember to read and keep all of the information you receive regarding your student loan.

### Do you know who the key players are?

Knowing who's who in the loan process will help you keep in touch with the right people.

The **lender** is the source of the money you borrowed. Your lender may keep your loan until it is paid in full, sell it to a secondary market or keep it and contract with a servicer to administer the loan. A sale does not change the terms of your loan, although the original lender or secondary marketer may offer you special interest rate reductions or rebates.

The **secondary market** includes private companies that purchase student loans from the original lender.

**Servicers** are often hired by lenders to manage the day-to-day details of tracking and collecting loan payments. If this occurs, your lender will still own

your loan, but you'll make your payments and direct questions to the student loan servicing company.

The **guarantor** is the agency that conveys to the lender the federal government's promise that your loan will be repaid. Guarantors may be state agencies or private companies. If you have difficulty repaying your student loan, the guarantor can help

you review your options. If you default on your loan, generally the guarantor is responsible for collecting the amount you owe.

#### TIP

You can always save money by repaying your loan early or paying a little extra each month to pay off your loan sooner.



### What type of loan do you have?

The most common student loans are federal Stafford loans and federal Perkins loans.

There are two types of **Stafford loans**: **subsidized**, for which the government pays the interest while you're in college and during grace and deferment periods; and **unsubsidized**, for which you're responsible for paying all the interest on the loan, during college and after. You can allow the interest to accumulate while in school, but if you do, the accrued interest will be capitalized at repayment. The interest rate is adjusted each year on July 1, but it can't go higher than 8.25 percent.

**Perkins loans** are very low interest loans for students with exceptional financial need. You pay no interest on Perkins loans while you're enrolled at least half time. The interest rate at repayment is 5 percent. Each college decides how to award these loan funds, and not all colleges participate in the federal Perkins loan program.

### What are my repayment options?

You have several options when it comes to repaying your student loan and may change your plan once a year by contacting your lender. In addition, you may pay off all or part of your loan ahead of schedule, without paying a penalty or fee.

The **standard plan** allows you to repay the same amount each month—at least \$50 or the interest that has accrued—with up to 10 years to repay.

The **graduated plan** calls for your payments to start out small and then increase over time, with up to 10 years to repay. The plan has two options: Under the first, your payments are interest only for the first two years, followed by larger payments in years three through 10. The second option allows four years of interest-only payments, followed by larger payments in years five through 10. While your payments may be more manageable early on, you'll pay more over the life of the loan since a smaller portion of principal is paid in the beginning as interest accumulates.

The **income-sensitive plan** bases your payments on a percentage of your gross monthly income and the amount you borrowed, but they must cover at least the interest due. Repayment terms will vary based on the percentage you request, your income and the loan amount.

The **extended plan** is for those who first borrow on or after October 7, 1998, and who have more than \$30,000 in outstanding Stafford loans. The payments can be fixed or graduated, with repayment up to 25 years.

Direct loan borrowers can choose from standard, graduated, extended or income-contingent repayment plans.

### What about loan consolidation and loan combination?

Depending on what you wish to accomplish, you may want to consider loan consolidation or loan combination.

Loan consolidation allows you to refinance two or more existing federal student loans and create a single new loan with one monthly payment. The new loan will have a fixed interest rate, new terms and may have an extended repayment period of up to 30 years. The advantages and disadvantages of loan consolidation will differ for each borrower. Generally, your monthly payment will be less, but you may pay more interest over the longer life of the new loan. Also, you may be giving up some of your benefits, including deferment and forbearance options.

If your loans are with the same lender, your monthly payments may be combined to simplify repayment. Not only will you receive a single monthly statement, but your payment is likely to be lower than if you were paying each loan separately.

### What happens if I have trouble repaying my loan?

If unemployment, temporary financial setbacks or other problems make it difficult for you to repay your loan, you may want to change your repayment plan, consolidate or combine your loans or look into a deferment or forbearance.

A **deferment** allows you to temporarily postpone making payments on your student loan. You must apply and be approved for a deferment. During deferments, the federal

government pays the interest on subsidized Stafford loans and Perkins loans. The three most common reasons for a deferment are returning to school at least half time (unlimited), unemployment (limited time) and economic hardship (limited time).

If you don't qualify for a deferment, you can ask your lender for a **forbearance** to temporarily postpone or reduce payments. Forbearances are given at the lender's discretion. During forbearance, you're responsible for paying the interest that accrues on all your loans. Some possible reasons for forbearance are financial hardship or illness.

### What are my responsibilities as a borrower?

When you accepted your student loan, you agreed to the following legal and financial responsibilities:

- ▶ To complete exit counseling.
- ▶ To repay your loan, including interest and fees, whether or not you completed your education, got a job or were satisfied with your education.
- ▶ To notify your lender or the current holder of your loan of changes to your name, phone number or address; also, if you drop below half-time enrollment, graduate or change your graduation date.
- ▶ To make consecutive, on-time monthly payments.
- ▶ To inform your lender of anything that may change your eligibility for a deferment.

### Can a student loan ever be discharged?

In unusual cases, your loan, or a portion of it, may be discharged or canceled—in other words, you will not have to pay it back. The following are some reasons why your lender might discharge your loan:

- ▶ Your school falsely certified your eligibility.
- ▶ You were unable to complete your course of study because your school closed (under certain circumstances).
- ▶ You become permanently or totally disabled, or die.
- ▶ Your school failed to make a refund to the lender when one was due (the amount kept by the school doesn't need to be repaid).

#### TIP

After graduating, leaving school or enrolling less than half time, you'll have six months before your first Stafford loan payment is due. If you have a Perkins loan, you'll have nine months before you have to start repaying this loan. You're allowed only one grace period.