



Stafford Loan Exit Counseling

Understanding your student loan rights and responsibilities is critical to successful repayment of these loans. This guide will help!

Student Loan Participants

- **Borrower:** Applies for the loan and receives the proceeds (money); YOU.
- **Lender/Loan Holder:** Funds education loans.
- **Guarantor:** Insures student loans for lenders and helps administer the Federal Family Education Loan Program (FFELP), such as Federal Stafford Loans (subsidized and unsubsidized).
- **Secondary Market:** Buys student loans.
- **Loan Servicer:** Administers and collects loan payments for the lender.
- **U.S. Department of Education:** Administers the William D. Ford Federal Direct Loan Program, such as Direct Subsidized and Unsubsidized Stafford (Direct Loans), and oversees the FFELP.

Types of Stafford Loans

These materials concentrate on the following loan types:

- Federal Family Education Loan Program (FFELP)
 - Federal Stafford Loans (subsidized and unsubsidized)
- William D. Ford Federal Direct Loan Program
 - Direct Subsidized and Unsubsidized Stafford (Direct Loans)

For ease of understanding throughout the counseling materials, “Stafford Loans” will refer to both Federal Stafford Loans and Federal Direct Stafford Loans, *unless otherwise distinguished*.

- **Subsidized loans:** The government pays interest that accrues during periods of half-time enrollment, the grace period, and authorized periods of deferment.
- **Unsubsidized loans:** You are responsible for interest. Try to pay the interest to avoid a higher principal balance (interest is added to your principal balance (capitalized) if not paid).

Master Promissory Note (MPN)

Your rights and responsibilities are included in this guide and on your **Master Promissory Note (MPN)**. Your MPN is the binding legal document you signed, indicating your commitment to repay your loans.

The multi-year feature of your MPN is good for 10 years from the date you signed, so if you go back to school, you may not be required to sign a new note. A new MPN will be required if:

- you send a written notice to your lender,
- you changed lenders,
- you change loan programs (such as from FFELP to Direct Loan or vice versa),
- you declare bankruptcy, or
- your initial 10-year period expires.

Record Keeping

Keep track of your loans! To monitor all of your federal student loan debt, you may access the National Student Loan Data System (NSLDS) on line at www.nslds.ed.gov or call (800) 4-FED-AID. You will need your federal PIN number to view your loan history.

Problem Resolution

The Federal Student Aid Ombudsman works with student loan borrowers informally to resolve loan disputes that the borrower is unable to resolve with the lender or guarantor.

Office of the Ombudsman
United States Department of Education
4th Floor UCP-3/MS 5144
830 First Street NE
Washington DC 20202
(877) 557-2575
fsahelp.ed.gov OR ombudsman.ed.gov

Repayment

Your original lender may sell your loan to another lender (loan holder) or secondary market. Any of them could choose to use a loan servicer to conduct the day-to-day activities on the loan. The original lender and new lender must notify you in writing (providing the name, address, and telephone number of the new lender). The terms and conditions of your loan will remain the same. Thoroughly read all mail you receive regarding your loans so that you will be sure to know where to send payments.

Repaying your student loan is a VERY serious obligation. You are required to make your student loan payments even if you:

- do not complete your education,
- do not find employment, or
- are not satisfied with the education you received.

You must notify your lender if any of the following changes:

- Name
- Address
- Telephone number
- Email address
- Enrollment status
- Employment information

Repayment Begins: Stafford Loans have a grace period of six months before you enter repayment. This grace period begins the day after you stop attending school at least half time. Your first payment will be due within 60 days from the last day of your grace period.

Note: Each loan has only one 6-month grace period. If you took a break from school that was longer than six months, you already may have used the grace period on some of your loans.

If you do not receive information from your lender regarding your payments, **it is your responsibility to contact your lender!** Not receiving notification does not excuse delinquency or default.

There is no penalty for making payments during your grace period. Paying ahead will decrease the total amount of interest you pay over the life of your loan.

Payment Schedule Options

You have the option to prepay each loan, pay each loan on a shorter schedule, and change repayment schedules.

NOTE: While lower payments and extended terms may be helpful and prevent default, they also will increase the amount of interest you pay over the life of the loan!

Standard Repayment Plan (10-year maximum repayment term)

- Minimum monthly payment is \$50, but may be higher depending on the balance.
- Equal monthly payment amount
- Ensures quickest payoff and minimizes total interest costs.

Graduated Repayment Plan (10-year maximum term)

- Begins with lower payment amounts that increase over time.
- Payment cannot be lower than your monthly interest amount.
- More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.

FFELP Income-Sensitive Repayment Plan (10-year maximum term)

- An adjusted payment amount based on gross income.
- Payment cannot be lower than your monthly interest amount.
- Eligibility and payment amount will be adjusted annually.
- More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.

FDLP Income-Contingent Repayment Plan (25-year maximum term)

- An adjusted payment amount based on gross income and family size.
- Payment cannot be lower than your monthly interest amount.
- Eligibility and payment amount adjusted annually.
- More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.
- If you do not repay your loan after 25 years, the unpaid portion will be forgiven (you may have to pay income tax on any amount forgiven).

Income-Based Repayment Schedule (25-year maximum term)

- An adjusted payment amount based on income and family size.
- Payment will not be more than 15 percent of the amount by which your adjusted gross income exceeds 150 percent of the poverty line for your family size.
- If the monthly payment amount is not enough to pay accrued interest on a subsidized Federal Stafford Loan (or the subsidized portion of a Federal Consolidation Loan), the Department of Education will pay the remaining interest for a period of three consecutive years beginning on the date you first begin repaying under the income-based repayment plan.
- The monthly payment amount may be adjusted annually.
- More interest may accrue over the life of the loan because the principal balance decreases at a slower rate.
- Any outstanding loan balance after 25 years will be forgiven.
 - Very few borrowers will have a remaining balance after 25 years.
 - The amount that is forgiven may be taxable.

Extended Repayment Schedule (25-year maximum term)

- Extended repayment is available to borrowers who had no outstanding balance on Stafford or Grad PLUS Loans on October 7, 1998 and have more than \$30,000 in outstanding FFELP loans or Direct Loans (the combined total from both programs is not taken into account). Payment amounts can be either fixed annually or graduated.
- More interest may accrue over the life of the loan because the principal balance decreases at a slower rate.

Federal Consolidation Loan and Direct Consolidation Loan (term contingent on loan balance)

Through consolidation, a lender or the U.S. Department of Education buys all of your eligible loans and combines them into one new loan. You must be in your grace period or repayment on all of your loans to apply for a Federal Consolidation Loan or Direct Consolidation Loan. Consolidation offers some benefits:

- Combines existing federal loans into a single loan with one monthly payment.
- Fixed interest rate based on the weighted average interest of all the loans to be consolidated, rounded to the next one-eighth percent, not to exceed 8.25 percent.
- Extends your repayment period up to 30 years based on loan balance.
- Option to prepay your loan or change repayment plans.

Consolidation also has some disadvantages:

- Extra interest over the life of the loan, if you are eligible for a longer repayment period.
- Loss of eligibility for certain deferment, forgiveness, cancellation, and grace period benefits.
- Different lenders may offer different borrower benefit programs and you may lose some former borrower benefits if you consolidate.

Comparison of Repayment Options

As noted above, your payment amount depends on a variety of factors, including your loan balance, interest rate, and in some circumstances, your income and family size. To provide you with a comparison of payment options, we've developed this scenario:

You are single with two children. Your AGI is \$30,000. The poverty level for your family size (3) is \$18,310. You enter repayment with a loan balance of \$32,000 (original principal + capped interest). For the purpose of income-based repayment, 150 percent of the poverty level is \$27,465. Your income exceeds this amount by \$2,535.

After two years in repayment you increase your annual salary to \$60,000, stay at that salary, and experience no changes in your family size for the remainder of your repayment term.

Based on this scenario and an interest rate of 6.8 percent, your monthly payments might look something like this:

Repayment Option	Maximum Repayment Period	Monthly Payment Amount	Total Interest Paid	Total Amount Paid
Standard	10 years	120 payments of \$368.25	\$12,190.84	\$44,190.84
Graduated*	10 years	24 payments of \$184.81 36 payments of \$209.62 60 payments of \$236.71	\$36,792.28	\$68,792.28
Income-sensitive**	10 years***	24 payments of \$184.81 120 payments of \$368.25	\$16,626.28	\$48,626.28
Income-contingent	25 years	24 payments of \$194.83 130 payments of \$328.86	\$15,427.72	\$47,427.72
Income-based	25 years	24 payments of \$31.69 140 payments of \$368.25	\$21,007.72	\$53,007.72
Extended – fixed payments	25 years	300 payments of \$222.10	\$34,630.92	\$66,630.92
Extended – graduated payments*	25 years	24 payments of \$184.81 36 payments of \$209.62 240 payments of \$236.71	\$36,792.28	\$68,792.28

*The number and length of each payment tier may vary depending on your loan holder(s). The exact payment amounts may vary as well, however, the lowest amount allowed is interest only and no one payment can exceed 3 times that of any other.

**Additional assumptions: Your loan holder determines (from income documentation you supply) that interest only is a reasonable payment upon your request for income-sensitive repayment. When your salary increases after two years you decide you no longer wish to be on the income-sensitive plan and do not reapply. Your lender does extend your repayment term one year for each year you request the income-sensitive payment plan.

***Repayment period may be extended one year for each year you request income-sensitive repayment, for a maximum of five additional years.

For specific questions about your payment amount or more specific information about the various repayment plans, check with your loan holder.

Solutions for Repayment Problems

If lower monthly payments are still too much, you may be able to temporarily postpone your payments through deferment or forbearance.

Deferment: A deferment allows you to postpone your scheduled monthly payments if you meet specific requirements. The length of your deferment depends on the type. Common deferments:

- In-school at least half time
- Graduate fellowship program
- Rehabilitation training program
- Military service
- Unemployment
- Economic hardship

Talk to your lender about specific deferment provisions. Different deferment options apply to borrowers who had outstanding balances on pre-July 1, 1993 FFELP loans when they obtained subsequent loans. For more information, contact your lender/loan holder or use Mapping Your Future's Deferment Navigator at mappingyourfuture.org/money/deferments.htm.

Who pays the interest while you are in deferment?

- Subsidized Stafford Loans = the Federal government
- Unsubsidized Stafford Loans = **YOU**

How do you request a deferment? Contact your lender, submit the required documentation for the deferment, and continue making payments while waiting for approval.

Forbearance: If you do not meet the criteria to qualify for a deferment, your lender may allow you to temporarily stop making payments with forbearance. Most forbearance is discretionary - it is completely up to your lender to approve. Under certain provisions, loan holders are required to grant forbearance, such as if your student loan payment is greater than 20 percent of monthly income or if you are in an internship or residency.

Your lender may grant forbearance if you:

- are experiencing personal problems (for example, poor health or financial hardship);
- are affected by circumstances such as a local or national emergency, military mobilization, or natural disaster; or
- are serving in a position that may qualify you for loan forgiveness, partial repayment of your loan, or a national service educational award.

Lenders may be required to grant forbearance for the following reasons:

- If you are experiencing personal problems (such as poor health or financial hardship)
- If you are affected by circumstances such as a local or national emergency, military mobilization, or natural disaster
- If you are serving in a position that may qualify you for loan forgiveness, partial repayment of your loan, or a national service educational award

Regardless of loan type, **YOU** are responsible for the interest that accrues during forbearance. You may choose to pay the interest as it accrues or allow it to capitalize (increases the total outstanding debt and can increase your monthly payment).

Loan Cancellation: You are generally obligated to repay your student loan, regardless of what happens. Typically, student loans may not be discharged through bankruptcy. Your loan may be discharged if:

- you **die** before completing repayment,
- you are **totally and permanently disabled** and meet certain additional criteria,
- your **school fails to pay a refund if you withdraw**,
- you are unable to complete your program of study due to **school closure**,
- your loan was falsely certified as a result of an **identity theft**, or
- your **school falsely certified** a loan application for you without your approval.

Teacher Loan Forgiveness: Eligible teachers may receive loan forgiveness up to \$5,000 of the aggregate loan amount, or up to \$17,500 for highly qualified special education or secondary math or science teachers, if they meet the following criteria:

- For loans received under the FFELP or Direct Loan Programs after October 1, 1998.
- Teach in qualifying low-income elementary or secondary school for 5 consecutive years and meet certain other qualifications.

Public Sector Employee Forgiveness: There is a loan forgiveness program for public service employees with Federal Direct Loans or a Federal Direct Consolidation Loan. You may be eligible to have the remaining loan balance of your non-defaulted loans forgiven if you:

- made 120 monthly payments on the eligible loans after October 1, 2007 and
- have been employed in a public-service job during the 120-month period and are employed in a public-service job at the time of such forgiveness.

Default

If you fail to make your student loan payments for 270 days, your loan will default. The consequences of defaulting on your loan are very serious:

- Damage to credit rating, which could impact your ability to borrow
- Referral of account to a collection agency
- Collection costs
- Garnishment of wages
- Withholding of state or federal Treasury payments (including federal tax refunds, Social Security benefits, etc.);
- Civil lawsuit, including court costs and legal expenses
- Loss of deferment and forbearance entitlements and flexible repayment options
- Loss of eligibility for further financial aid
- Suspension of a professional license

Education Tax Benefits (Contact your tax advisor for additional information.)

- **Tax credits**
 - **Hope Scholarship Tax Credit:** Tax credit for expenses paid for dependent student's first two years of college.
 - **Lifetime Learning Tax Credit:** Tax credit for education expenses incurred after first two years of postsecondary education.
- **Tax deductions**
 - **College Tuition and Fees Deduction:** Reduce taxable income for higher education expenses.
 - **Student Loan Interest Deduction:** Deduct a portion of interest paid on student loans.
- **Other potential tax benefits:**
 - Education IRA withdrawals.
 - Educational assistance provided by an employer (tuition reimbursement programs).
 - Your state may offer tax credits or deductions. Contact your state tax authority for more information.

For more information

The U.S. Department of Education offers the publication "Your Federal Student Loans: Learn the Basics and Manage Your Debt." The publication is located at <http://studentaid.ed.gov/students/attachments/siteresources/YourFederalStudentLoansApril2009.pdf>.

Money Management

Establish yourself financially by building good credit and budgeting to keep your "wants" under control:

- Open checking and savings accounts. Don't overdraw these accounts.
- Make your monthly payments for loans and services on time each month.
- Create a spending plan that meets your "wants" as well as your "needs." Your total expenses should be less than or equal to your total income.
- If things are getting out of control, contact your creditors, seek help from a reputable credit counseling service or look into debt consolidation.

Start saving now! Try paying yourself first. Start an emergency savings fund equal to **three to six months of your normal monthly earnings** first.

Understand that **alternative/private student loans have different features** than your federal student loans.

Use your credit cards wisely to help you establish a solid credit rating and avoid financial problems. **Every time you use your credit card, you are borrowing money.** If you don't pay your balance each month, you will have to pay a finance charge. Keep copies of all of your credit card records and receipts to compare to your monthly statements. Follow up on any errors. Shred or otherwise destroy carbons and receipts before throwing them away.

Review your credit report, a collection of information about you and your credit history. Request your free credit reports at www.AnnualCreditReport.com annually and review them to ensure the information is accurate.

Rights and Responsibilities

I understand that I have the right to the following:

- Written information on loan obligations, including loan consolidation and information on my rights and responsibilities
- A copy of the promissory note and return of the note when the loan is paid in full
- Before repayment: information on interest rates, fees, the balance owed on loans, a loan repayment schedule, and an explanation of default and its consequences
- Notification, if I am in my grace period or repayment, no later than 45 days after a lender assigns, sells, or transfers my loan to another lender
- A grace period, if applicable, prepayment of the loan without penalty; and federal interest benefits, deferments, and forbearances if I qualify

I understand that I am required to do the following:

- Repay the loan according to the repayment schedule and notify the lender of anything that affects my ability to repay or eligibility for deferment or cancellation
- Notify the school and lender if I graduate, withdraw, drop below half-time, transfer to another school, or change my name, address, or Social Security number
- Notify the lender if I fail to enroll for the period covered by the loan
- Attend an exit interview before leaving school

I understand that counselors are available in the Financial Aid Office to answer any questions I may have about the loans.

I understand that this transmission certifies that I have met my obligation to participate in exit counseling as prescribed by federal statute.

If I need more information about my federal student loans, I can visit the National Student Loan Data System (NSLDS) at www.nsls.ed.gov or call them at (800) 4 FED-AID.

If during repayment I develop student loan problems that can't be resolved through the lender or guaranty agency, I might want to contact the U.S. Department of Education Federal Student Aid (FSA) Ombudsman. They will collect documentation and work to resolve the situation with me.

Office of the Ombudsman

United States Department of Education

4th Floor UCP-3/MS 5144

830 First Street NE

Washington DC 20202

(877) 557-2575

fsahelp.ed.gov OR ombudsman.ed.gov