**Grace Period and Repayment Guide for Stafford and Direct Loans**

**Communication is key!**

This guide session covers loans from the following programs:

- 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 guide, “Stafford Loans” and “loans” will refer to both loan programs and the above counseling types, unless we distinguish otherwise.

Once you are out of school, it is important to assume responsibility for your loans. **One of your most important responsibilities is to stay in touch with your loan holder or its servicer** (the organization that makes payment arrangements and collect your payments).

- You must tell your loan holder of changes to your:
  - name,
  - address,
  - telephone number, and
  - e-mail address.
- You must also let your loan holder know if you:
  - withdraw from school,
  - drop below half-time enrollment,
  - transfer to a new school,
  - graduate, or
  - have a change in status that would affect your loan status (for example: loss of eligibility for unemployment deferment by obtaining a job).

**The most important reason for staying in contact with your loan holder:** If you have difficulties making your student loan payments, there are options to help you, such as deferment or forbearance (details to follow).
Understanding the grace period

Each loan will have one grace period of six months before you must repay them, beginning the day after you stop attending school at least half time.

**Life scenario: You have been attending school, but dropped one class, causing you to fall below half-time attendance.**

Your grace period begins the day after you drop the class. If you begin attending school at least half time before the 6-month grace period ends, your loans will return to an in-school status. You will have a grace period again after you stop attending school at least half time. If you return to school after the 6-month grace period ends, you can request an in-school deferment on the loan, but you will not have an additional grace period on that particular loan when you stop attending school at least half time again. Instead, that loan will enter repayment.

**IMPORTANT:** Each loan has only one 6-month grace period. The loan from your original studies will enter repayment as soon as you leave school.

**Interest information**

- The government pays interest only on subsidized loans during the grace period and authorized periods of deferment. Please note that for loans first disbursed after July 1, 2012, the interest will not be subsidized during the grace period.
- You must pay the interest on unsubsidized loans, though you aren’t required to do so during in-school, grace, and deferment periods. You should try to pay the interest to avoid having it added to your principal balance at the end of your period, as this will save you money over the life of the loan.

**SAVE SOME $$MONEY$$:** There is no penalty for early payments or making payments higher than what you owe. Paying ahead will decrease the total amount of interest that you pay on your loan.

**Repayment begins**

**Life scenario: You have entered repayment and do not know your payment due date.**

- Your loan will enter repayment six months after you stop attending school at least half time. Your loan holder will schedule the first payment within 45 days of the expiration of your grace period and will advise you of this date during the grace period.
- If you do not receive information about your payment schedule, it is your responsibility to contact your loan holder.
Repayment tips:

- *Make sure you have all your loan records organized in a file.*
  - It is important that you keep all of your loan papers, letters, cancelled checks, and any documents that you sign.
  - Keep a record of phone calls in reference to your loan, including the date, name of person with whom you spoke, and any information pertaining to your inquiry.
- *Know the amount of your student loan payments.* Your loan holder automatically arranges a standard repayment schedule, but will provide you with information about other options (discussed later).
- *Check to see if your loan holder offers automatic payment withdrawal.*
  - This is an easy way to make sure you make your payments on time.
  - Some loan holders will lower your interest rate if you sign up for this option.

Repayment options

*Life scenario: Your income is significantly less than it will be in a few years. You need a repayment option that begins with a lower payment, but will increase as your income increases over time.*

You have the option to change repayment schedules and prepay each loan on a shorter schedule. Below is information about the repayment schedules available on your Federal Stafford Loans.

**Standard Repayment Plan**

- Minimum monthly payment is $50, but may be higher depending on balance
- Equal monthly payment amount
- Maximum repayment period of 10 years
- Estimate standard repayment with the calculator at [mappingyourfuture.org/paying/standardcalculator.cfm](mappingyourfuture.org/paying/standardcalculator.cfm)

**Graduated Repayment Plan**

- Begins with lower payment amounts that increase over time
- Payment cannot be lower than your monthly interest amount
- Maximum repayment period of 10 years
- More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.
Income-Sensitive (Federal Family Education Loan Program) Repayment Plan

- 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
- Up to a 10-year repayment period
- More interest will accrue over the life of the loan because the principal balance decreases at a slower rate.

Income-Contingent (Federal Direct Loan Program) Repayment Plan

- An adjusted payment amount based on gross income and family size
- 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.
- If you do not fully repay your loan after 25 years, the unpaid portion will be forgiven. You might have to pay income tax on any amount forgiven.

Pay as You Earn (Direct Loan Program):

- Available to new borrowers if:
  - You have no outstanding balance on a Direct or FFEL Program loan as of October 1, 2007 or have no outstanding balance on a Direct or FFEL Program loan when you obtain a new loan on or after October 1, 2007, and you receive a disbursement of a Direct Loan or a student Direct PLUS loan on or after October 1, 2011, or you receive a Direct Consolidation Loan based on an application received on or after October 1, 2011 (unless your loans repaid by the Direct Consolidation Loan make you ineligible because of the criteria in the preceding bullet).
  - You must have partial financial hardship. Your maximum monthly payments will be 10 percent discretionary income, the difference between your adjusted gross income and 150 percent of the poverty line for your family size and state of residence (other conditions may apply).
  - If your monthly payment amount is not enough to pay accrued interest on a Direct Subsidized Loan, the Department of Education will pay the remaining interest for a period of three years.
  - Eligibility and payment amount adjusted annually.
  - More interest may accrue over the life of the loan because the principal balance decreases at a slower rate, resulting in paying more money over the life of the loan.
  - Any outstanding loan balance after 20 years is forgiven. You may have to pay income tax on any amount forgiven.
Revised Pay as You Earn (REPAYE)(Direct Loan Program):

- There is no income requirement to qualify.
- Your maximum monthly payments will be 10 percent discretionary income, the difference between your adjusted gross income and 150 percent of the poverty line for your family size and state of residence (other conditions may apply). Your spouse's income is generally included in the adjusted gross income.
- There is no payment cap, so your payment may be larger than in other repayment plans.
- If your monthly payment amount is not enough to pay accrued interest:
  - On a Direct Subsidized Loan, the Department of Education will pay 100% of the remaining interest for a period of three years. After three years, the Department will pay 50% of the remaining interest.
  - On Direct Unsubsidized Loans, the Department will pay 50% of the difference between the monthly payment and monthly accruing interest.
- Eligibility and payment amount adjusted annually. You must recertify your income each year to remain under the REPAYE plan umbrella.
- If you are removed from or leave REPAYE, the outstanding accrued interest will be capitalized onto the principal balance.
- More interest may accrue over the life of the loan because the principal balance decreases at a slower rate, resulting in paying more money over the life of the loan.
- If you make 240 qualifying payments over at least 20 years, any outstanding loan balance after 20 years is forgiven. You may have to pay income tax on any amount forgiven. If you had loans for graduate or professional programs, you must make 300 qualifying payments over at least 25 years.

Income-Based Repayment Plan

- Available for payments made on or after July 1, 2009
- You must have partial financial hardship. Your maximum monthly payments will be 15% of discretionary income, the difference between your AGI and 150% of the poverty guideline for your family size and state of resident (other conditions apply).
- If your monthly payment amount is not enough to pay accrued interest on a Direct Subsidized Loan / subsidized Federal Stafford Loan, the Department of Education will pay the remaining interest for a period of three years.
- Payments re-evaluated annually
- More interest may accrue over the life of the loan because the principal balance decreases at a slower rate, resulting in paying more over the life of the loan.
- Any outstanding loan balance after 25 years is forgiven.
- Very few borrowers will have a remaining balance after 25 years.
- The amount forgiven may be taxable.
- Estimate payment under the income-based repayment plan by visiting mappingyourfuture.org/paying/ibrcalculator.cfm.
Extended Repayment Plan

- 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 (standard) or graduated
- Maximum repayment term is 25 years
- More interest may accrue over the life of the loan because the principal balance decreases at a slower rate.

Comparison of Repayment Options

Your payment amount depends on a variety of factors, including your loan balance and in some circumstances, your income and family size. Let’s look at a comparison of payment options.

Life scenario: You are single and have two children. Your gross income is $30,000 annually ($2,500 monthly). For the year in question, the poverty level for your family size (three in your household) is $18,310. For the purpose of income-based repayment, 150 percent of the poverty level is $27,465. Your income exceeds this amount by $2,535.

You enter repayment with a loan balance of $32,000 (original principal + capped interest). After two years in repayment you increase your annual salary to $60,000 and stay at that amount 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 the chart below (example only; factors such as future income, family size, and poverty levels are too variable to predict):

<table>
<thead>
<tr>
<th>Repayment Option</th>
<th>Maximum Repayment Period</th>
<th>Monthly Payment Amount</th>
<th>Total Interest Paid</th>
<th>Total Amount Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td>10 years</td>
<td>120 payments of $368.25</td>
<td>$12,190.84</td>
<td>$44,190.84</td>
</tr>
<tr>
<td>Graduated*</td>
<td>10 years</td>
<td>24 payments of $252.86</td>
<td>$14,577.78</td>
<td>$46,577.78</td>
</tr>
<tr>
<td></td>
<td></td>
<td>24 payments of $307.41</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>24 payments of $373.74</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>24 payments of $454.37</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>24 payments of $552.39</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income-sensitive**</td>
<td>10 years***</td>
<td>24 payments of $184.81</td>
<td>$16,626.28</td>
<td>$48,626.28</td>
</tr>
<tr>
<td></td>
<td></td>
<td>120 payments of $368.25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income-contingent</td>
<td>25 years</td>
<td>24 payments of $194.83</td>
<td>$15,427.72</td>
<td>$47,427.72</td>
</tr>
<tr>
<td></td>
<td></td>
<td>130 payments of $328.86</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Income-based | 25 years | 24 payments of $31.69 | $21,007.72 | $53,007.72
Extended     | 25 years | 300 payments of $222.10 | $34,630.92 | $66,630.92

*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 loan holder 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 – maximum of five additional years.

For specific questions about your payment amount, check with your loan holder.

Solutions for repayment problems

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

- do not complete your education,
- do not complete your program within the regular completion time for that program,
- are not employed upon completion of your studies,
- do not find employment in your field of study, or
- feel that the education you received did not meet your expectations.

It is very important to understand your rights and responsibilities. Your rights and responsibilities are included on the confirmation page at the end of this counseling session. They also are included in your MPN.

Life scenario: You are unemployed and can’t afford to make payments until you find a new job and can get back on track.

If you are having trouble making your scheduled monthly payment, you have options. You may be able to lower your monthly payment by utilizing an alternate repayment schedule (described previously) or you may temporarily postpone your payments through deferment or forbearance.
Deferment: A deferment is a period of time during which your loan holder temporarily suspends your regular payments. If your loans were made on or after July 1, 1993, you may be eligible for the following deferments:

- At least half-time enrollment at an eligible school
- Graduate fellowship program
- Rehabilitation training program
- Military service
- Unemployment
- Economic hardship

Refer to your promissory note for specific deferment provisions. Additional deferment provisions are available for loans made before July 1, 1993.

Interest during Deferments

- Subsidized Loan: The federal government pays the interest.
- Unsubsidized Loan: You are responsible for interest, though you don’t have to pay it during deferment periods. Pay the interest when you can, as this will save you money over the life of the loan.

Life scenario: One of your loan holders approved a deferment, and you assumed your loan with another holder would also be in a deferment status.

You must request a deferment from each loan holder. One loan holder can’t determine your eligibility for loans with another holder.

To request a deferment:

- contact your loan holder,
- submit the required documentation for the deferment, and
- continue making payments on your account while waiting for notification of approval.

For more information on deferments, contact your loan holder or visit Mapping Your Future's at mappingyourfuture.org/money/deferments.cfm.

Life scenario: You are unable to make your scheduled payments, but do not meet the requirements for a deferment.

Request a forbearance, which is a period of time during which you do not have to make full payments or make regular payments at all.
Forbearance

Most forbearance is discretionary - it is completely up to your loan holder to grant one. Your loan holder may grant forbearance under the following conditions:

- If you are experiencing personal problems (such as poor health or economic hardship)
- If you are affected by circumstances (such as a local or national emergency, military mobilization, or natural disaster)
- If you have exhausted your eligibility for an internship deferment
- 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

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.

You must contact your loan holder to request forbearance.

NOTE: No matter what type of loan you have, 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—which increases the total outstanding debt and can increase your monthly payment.

Life scenario: You have multiple loans and/or loan holders and cannot afford more than one monthly payment.

Consider a Direct Consolidation Loan.

Direct Consolidation Loan

Through the Direct Consolidation Loan, the U.S. Department of Education buys all of your eligible loans and combines them into one new loan. Consolidation offers both benefits and drawbacks:

- Extended repayment of up to 30 years based on your balance
- One monthly payment
- Option to prepay or change repayment plans without penalty
- Fixed interest rate
- Extra interest over the life of the loan, if you choose a longer repayment period
- Possible loss of eligibility for certain deferments, forgiveness, cancellation, and grace period benefits
- Potential loss of some borrower payment incentives if you consolidate (for example, reduced interest rate for on-time payments)
To apply for a Direct Consolidation Loan, your loans must be in a grace period or in repayment. **NOTE:** If you consolidate your loans during the grace period, you waive (give up) the remaining period permanently.

- If you have variable interest rate loans, you may be able to obtain a slightly lower interest rate on your consolidation loan if you apply for the consolidation during your grace period. Be sure to check with the Direct Loan Program to see if you qualify for this benefit.
- If you consolidate during the grace period, you may be able to delay the processing of the consolidation loan until shortly before the end of the grace period, giving you more time to benefit from the grace period.

**Limited in-school consolidation:** For one year beginning July 1, 2010, borrowers who are enrolled in school at least half time can consolidate into the Direct Loan Program if they have loans in at least two of the following categories: Federal Family Education Loan (FFEL) Program loans, FFEL Program loans that have been assigned to the U.S. Department of Education, and Direct Loans. Mapping Your Future generally does not recommend consolidating while you are in school, as you will waive all grace periods to which you would otherwise be entitled.

**Consolidation repayment example:**

You have the following loans you're considering consolidating:

- Loan A: $2,625 balance, 4.13 percent interest
- Loan B: $3,500 balance, 5.2 percent interest
- Loan C: $5,500 balance, 6.1 percent interest
- Loan D: $5,500 balance, 6.8 percent interest

If you consolidate these loans (a total of $17,125), you'll have 15 years (180 months) to repay your Consolidation Loan. The weighted average interest rate of the loans is **5.839 percent**. This is rounded up to the nearest 1/8th of one whole percent, resulting in your fixed interest rate of **5.875 percent**.

If you repay your Consolidation Loan under an equal payment plan, your monthly payment will be **$143.36**. In the end, you will have paid **$25,804.18**, which includes **$8,679.18** in interest.

**Life scenario: You want to consolidate your loans, but they are in a deferment status.**

If the loans you are consolidating are in an authorized deferment period, the deferment will end the day the consolidation is complete. If you are still unable to make payments at that time, you must reapply for a deferment after you consolidate. In some cases, you may not be eligible for the same types of deferment as you were before consolidation.
**Life scenario: You know you borrowed a student loan, but you don’t know who holds the loan.**

To monitor all of your federal student loan debt, access the National Student Loan Data System (NSLDS) at [www.nslds.ed.gov](http://www.nslds.ed.gov) or call toll-free **(800) 999-8219**. You will need your:

- Social Security number
- First two letters of your last name
- Date of birth
- FSA ID

**Life scenario: You contacted your loan holder concerning an issue, but were unable to resolve the problem.**

Contact the Federal Student Aid (FSA) Ombudsman, which works with student loan borrowers informally to resolve loan disputes that you are unable to resolve with your loan holder:

United States Department of Education  
FSA Ombudsman Group  
P.O. Box 1843  
Monticello, KY 42633  
**(877) 557-2575**  
[http://studentaid.gov/repay-loans/disputes/prepare](http://studentaid.gov/repay-loans/disputes/prepare)

**Loan forgiveness**

You are generally required to repay your student loan, regardless of what happens. **Typically, bankruptcy does not discharge or cancel federal student loans.**

Your loan will be eligible for discharge if the following occurs:

- You die
- You are totally and permanently disabled (requires certification from a physician and is subject to a conditional period of three years)
- 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
- Your school falsely certified or fraudulently completed a loan application in your name without your approval
**Life scenario:** You would like to work in an occupation or program that offers student loan forgiveness.

**Teacher Loan Forgiveness:** A program for teachers serving in designated low-income schools. You must teach in a low-income school for five consecutive, complete school years to qualify for forgiveness of up to a maximum of $17,500 in loan principal and interest.

**Public Sector Employee Forgiveness:** A program for public-service employees with Direct Loans or a Direct Consolidation Loan. You may be eligible to have the remaining balance of your non-defaulted loans forgiven if you have made 120 payments on those loans (after October 2, 2007) under certain repayment plans while employed by an eligible public-service organization at the time of such forgiveness and have been employed in a public-service job during the 120-month period. If you have Federal Family Education Loan Program Stafford Loans, you may request this forgiveness program by consolidating your loans into a Direct Consolidation Loan.

Contact your loan holder if you think you may be eligible for any of the discharge or forgiveness programs listed above.

**Loan Repayment Programs:** There are certain programs that may help you repay your loan:

- AmeriCorps service program (www.americorps.gov or (800) 942-2677)
- Loan repayment for serving as an enlisted person in the National Guard or Reserve programs (contact your recruiter for information).

**Consequences of 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 your credit rating, which could impact your ability to borrow (for example, you may be denied a car loan) and result in higher interest rates on other debt (for example, loans and credit cards)
- Referral of your account to a collection agency
- Collection costs
- Garnishment of your wages
- Withholding of your 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 financial aid in the future
- Suspension of your professional license
**Life scenario: You applied for a car loan and were denied because of your defaulted student loan.**

Rehabilitation allows you to remove your loan from a default status:

- Your loan holder deletes the negative information they supplied to your credit report, and the loan no longer is in default.
- If you still meet the other requirements, you can get deferments on your rehabilitated loan, as well as forbearance and alternative payment plans.
- You can get federal financial aid again if you meet the other eligibility requirements.

To rehabilitate your loans, follow these steps:

- Ask your loan holder to rehabilitate your loan.
- Agree to a reasonable and affordable repayment arrangement that is satisfactory to the loan holder.
- Make monthly payments that are on time, voluntary, full, and consecutive under that repayment arrangement.
  - You have to make your payments on time every month. If you're late or miss even one payment, you haven't rehabilitated your loan and have to start over again.
  - Lump sum payments don't count as separate monthly payments.
  - Any payments on your account resulting from tax offset or wage garnishment don't count towards rehabilitation, because they aren't considered voluntary.

You may only rehabilitate a loan once. If you rehabilitate and then default, you will not have the option on that loan again.

**Life scenario: You want to consolidate your loan, but it is in default.**

If the loans you want to consolidate are in default, you must make special arrangements:

- Establish a satisfactory repayment arrangement with the loan holder.
- The Direct Loan Program will set the number of monthly payments you'll be required to make before you can consolidate. The payments must be consecutive, voluntary, on time, and reasonable-and-affordable. A lump sum payment, tax offset, wage garnishment, or court-ordered payment will not count towards the required consecutive monthly payments.
Rights and responsibilities

I understand that my student loans must be repaid. I understand I have specific rights and responsibilities under the Federal Family Education Loan Program and Federal Direct Loan Program (outlined below).

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 loan holder of anything that affects ability to repay or eligibility for deferment or cancellation.
- Notify the school and loan holder if I graduate, withdraw, drop below half-time, transfer to another school or change my name, address or Social Security Number.
- Notify the loan holder if I fail to enroll for the period covered by the loan.
- Notify the school and loan holder of any change in address.
- 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.

If I need more information about my federal student loans, I can visit the National Student Loan Data System (NSLDS) at www.nslds.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 loan holder or guarantee agency, I can contact the U.S. Department of Education Federal Student Aid (FSA) Ombudsman. They will collect documentation and work to resolve the situation with me.

United States Department of Education
FSA Ombudsman Group
P.O. Box 1843
Monticello, KY 42633
(877) 557-2575
http://studentaid.gov/repay-loans/disputes/prepare