

Daytona State College



Federal Family Education Loan Exit Information

A Guide to Repaying Your Student Loans

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Taking On New Directions

Making the Most of Your Education

As you leave school to become a working adult, your life will take on a different focus with new challenges and responsibilities. One of those responsibilities is repaying your student loan. To make the most of your education and to successfully meet that responsibility, you need information about

- Managing your money,
- Your rights and responsibilities as a student loan borrower,
- The consequences of how you handle your student loan,
- Determining what your student loan payments will be,
- A system for managing your money, and
- The alternatives available to you if you ever find it difficult to repay your student loan.

A Responsibility that Won't Go Away

Your student loan is a debt you owe for your education, and you should treat your loan as you would any other kind of debt, such as a loan used to buy a car or a house. You are responsible for repaying your student loan, even if you didn't graduate, you can't find a job, or you feel that you didn't receive a quality education.

Help Meeting Your Obligation

Because your student loan is a responsibility that will go away only when you repay your debt, how you accept this obligation can have either a positive or a negative effect on your future. Remember, help is available when you need it.

The Federal Family Education Loan Program (FFELP) was designed to help you repay your student loan. This booklet explains the alternatives available to you should you ever have difficulty making the payments on your loan. Become familiar with those options. Doing so can prepare you to meet your obligations throughout the time when you repay your debt, both now or at any time in the future when you may need other options.

Establishing Credit

Lenders and guaranty agencies are required to report information on student loans to national credit bureaus. This means that the amount of your debt and how you repay it will become part of your credit history.

Most students have little in the way of a credit history. How you handle your student loan will have a direct impact on whether lenders will give you other forms of credit (for example, other consumer loans or credit cards). By making your payments on time, you can open doors that will help you enjoy the full financial benefits of your education. On the other hand, if you establish a poor credit rating by not repaying your loan or by consistently making late payments, you will likely experience difficulties in obtaining other kinds of credit.

Your Responsibility

You are responsible for repaying your student loan debt, even if you didn't graduate, you can't find a job, or you feel that you didn't receive a quality education.



To successfully repay your student loan, you need to take control of your finances. Like many of the steps involved in repaying your loan, this may be a totally new experience for you. But planning now can provide financial freedom in the future, help you take control of your finances, and bring you peace of mind.

Getting Organized

If you haven't already done so, assemble all of your loan documents in one place! Review all the documents to make sure you understand all of your financial obligations. If you have any questions, contact your lender.

Developing a Budget

The budget worksheet on page 5 can help you to do this. Begin by estimating both your starting salary and your living expenses. When estimating your salary, be realistic. When you first hit the job market, you may be surprised to find that starting salaries in many career fields are not very high. You'll probably start by earning more than someone without your education, but the big bucks won't come until after you've proven your worth "in the field." Ask your school's placement office for statistics on starting salaries for various jobs. Or look through the classified ads in your local newspaper for salary quotations on the jobs that interest you. You may also refer to the Occupational Outlook Handbook, which is available at most public libraries as well as online at www.bls.gov/ocohome.htm.

Once you've arrived at a realistic income figure, subtract one quarter of it for the approximate amount of taxes that will be deducted from your pay. Divide the remainder by 12 to arrive at your monthly take-home earnings. Use this figure as the basis for your budget. After you arrive at this figure, you're ready to estimate your expenses (such as rent, car, clothing, and living expenses) using the budget worksheet.

When figuring out your expenses, remember to include the monthly payment on your student loan! (The interest and monthly payment charts on pages 7 through 9 can help you estimate your payments.)

If you find you still have trouble managing your finances, talk to your local consumer credit counseling service. You can call (800) 388-CCCS (2227) for information about the Consumer Credit Counseling Service nearest you. This is a free service, offering help from experienced financial counselors who can give you advice for managing your finances successfully. You can also work with your lender to establish repayment terms that meet your needs and federal guidelines.

The Taxpayer Relief Act of 1997 may allow you to claim a federal income tax deduction for interest payments you make on FFELP loans for the first 60 months (whether consecutive or not) that such loans are in repayment. The deduction applies to interest payments you make on or after January 1, 1998. For further information, refer to IRS Publication 970, which is available at

Budget Worksheet	
Income	
Annual Salary	\$ _____
Minus Taxes <i>(approximately 25%)</i>	\$ _____
Net Income	\$ _____
Monthly Income after Taxes <i>(divide net income by 12)</i>	\$ _____
Moving Expenses	
Deposits	\$ _____
Household Items	\$ _____
Food	\$ _____
Transportation	\$ _____
Moving Costs	\$ _____
Total	\$ _____
Monthly Expenses	
Rent	\$ _____
Combined Utilities	\$ _____
Groceries	\$ _____
Auto Expenses	\$ _____
Student Loan	\$ _____
Other Loans	\$ _____
Credit Cards	\$ _____
Insurance	\$ _____
Medical Expenses	\$ _____
Entertainment	\$ _____
Emergency Fund	\$ _____
Miscellaneous	\$ _____
Total	\$ _____

Estimating Your Student Loan Payments

If you would like to estimate what your monthly payments will be after your grace period, follow these three steps using the information in the tables. (This will provide you with only an estimate of your payments so that you can begin preparing early. Your lender will supply specific information about your loan payments before you begin repayment.)

Three Easy Steps

Estimating your monthly payments involves three easy steps:

- 1 Calculate your monthly interest charges.
- 2 Estimate your capitalized interest.
- 3 Estimate your monthly payments.

Subsidized Federal Stafford loans

If you are going to begin repayment on a subsidized Federal Stafford loan, you need only estimate your monthly payments (Step 3). Since the federal government pays the interest that accrues on your loans while you are in school and during your grace period, you don't have any charges to calculate or capitalize.

Unsubsidized Federal Stafford loans

If, however, you are going to begin repayment on an unsubsidized Federal Stafford loan, you are responsible for paying the interest that accumulates during school and your grace period. If you choose not to make interest payments while you are in school, your lender will capitalize the interest that accrues by adding it to the principal amount of your loan. If your lender capitalizes interest, you will need to calculate your monthly interest charges (Step 1) and estimate how that will affect your monthly payments (Step 2).

Step 1:
Calculate Your Monthly Interest Charges

Round your loan up to the nearest \$500. If your loan amount is not on the table, follow the example below the table to estimate your accrued monthly interest. If you have a variable interest rate, use 7 percent for a Stafford loan and 9 percent for SLS.

Approximate Monthly Interest					
Loan Amount	6.5%	7.0%	7.5%	8.0%	8.25%
\$ 500	\$ 2.71	\$ 2.92	\$ 3.13	\$ 3.33	\$ 3.44
1,000	5.42	5.83	6.25	6.67	6.88
2,000	10.83	11.67	12.50	13.33	13.75
3,000	16.25	17.50	18.75	20.00	20.63
3,500	18.96	20.42	21.88	23.33	24.06
4,000	21.67	23.33	25.00	26.67	27.50
5,000	27.08	29.17	31.25	33.33	34.38
5,500	29.79	32.08	34.38	36.67	37.81
6,000	32.50	35.00	37.50	40.00	41.25
7,000	37.92	40.83	43.75	46.67	48.13
8,000	43.33	46.67	50.00	53.33	55.00
8,500	46.04	49.58	53.13	56.67	58.44

Stafford loan of \$2,500		
at 7 percent interest:		
\$2,000	=	\$11.67/month
+ 500	=	2.92/month
\$2,500	=	\$14.59/month

Example for Step 1

Step 2:
Estimate Your Capitalized Interest

If you have an unsubsidized Stafford loan or an SLS loan, your lender will capitalize interest. Actual interest capitalized will depend on disbursement dates, number of disbursements, the variable interest rate, and the frequency of capitalization. The information in this box will provide an estimate of your capitalized interest.

Estimate of Capitalized Interest			
	Monthly Interest (from Step 1)	Number of Months in School* and Grace**	Estimate of Capitalized Interest
Example	\$ 14.59	X 27	= \$ 394
Unsubsidized Stafford	\$ _____	X _____	= \$ _____

* Include summer months in calculation.
** This term is defined on page 12.

Step 2

Step 3: Estimate Your Monthly Payments

Determine the total amount you borrowed from each program. Add your estimate of capitalized interest (Step 2) for each of your unsubsidized Stafford loans and SLS loans. Round your new principal balance, by loan type, up to the nearest \$500. If your principal amount is not on the table, follow the example to estimate your monthly payment. If you have a variable interest rate, use 7 percent interest for Stafford or 9 percent interest for SLS.

Stafford loan of \$13,000 at 7 percent interest:	
\$10,000	= \$113.54/month
+ 3,000	= 34.06/month
<u>\$13,000</u>	= <u>\$147.60/month</u>

Example for Step 3 (estimated payment)

Estimated Monthly Payments					
Loan Amount	6.5%	7.0%	7.5%	8.0%	8.25%
\$ 500	\$ 5.68	\$ 5.81	\$ 5.94	\$ 6.07	\$ 6.13
1,000	11.35	11.61	11.87	12.13	12.27
2,000	22.71	23.22	23.74	24.27	24.53
3,000	34.06	34.83	35.61	36.40	36.80
4,000	45.42	46.44	47.48	48.53	49.06
5,000	56.77	58.05	59.35	60.66	61.33
5,500	62.45	63.86	65.29	66.73	67.46
6,000	68.13	69.67	71.22	72.80	73.59
7,000	79.48	81.28	83.09	84.93	85.86
8,000	90.84	92.89	94.96	97.06	98.12
8,500	96.52	98.69	100.90	103.13	104.25
9,000	102.19	104.49	106.83	109.19	110.39
10,000	113.54	116.10	118.70	121.32	122.66
15,000	170.31	174.15	178.05	181.98	183.99
20,000	227.08	232.20	237.40	242.64	245.32
25,000	283.85	290.25	296.75	303.30	306.65

Summary Table: Use this table to write in your estimate.

Summary Table				
	Loan Amount	Estimate of Capitalized Interest (from Step 2)	New Principal Balance	Estimated Monthly Payment
Example	\$ 2,500	+ \$ 394	= \$ 2,894	\$ 50*
Subsidized Stafford	\$ _____	+ \$ _____	= \$ _____	\$ _____
Unsubsidized Stafford	\$ _____	+ \$ _____	= \$ _____	\$ _____

* Minimum monthly payment = \$50.

Step 3

Repaying Your Student Loan

When you first borrowed a student loan, you signed a legal document called a Master Promissory Note (MPN), which established your obligation to repay that loan, and, in certain cases, future loans. If your school was authorized to use the multi-year feature of the MPN, you may have signed only one MPN for all of the loans you borrowed. In that case, the multi-year feature of your MPN ended on the earliest of the following dates:

- The date your lender received your written notice that no further loans could be disbursed under the MPN;

- 12 months after the date you signed the MPN, if no disbursements were made during this 12-month period; or
- 10 years from the date you signed the MPN.

On the other hand, if your school was not eligible for the multi-year feature of the MPN or you or your school elected not to use it, you may have signed a new MPN every time you borrowed a loan.

The school you attended certified your loan(s) for the type(s) (subsidized and/or unsubsidized) and maximum amount for which you were eligible, unless you declined a certain loan type or reduced the maximum amount. Your school, lender, or guarantor notified you about the loan amount and type(s) that you borrowed.

Here is a brief summary of the repayment guidelines established in your MPN:

- 1 Your payments are expected on a monthly basis.
- 2 Unless your lender agrees otherwise, the minimum monthly payment will be at least \$50.
- 3 Your minimum annual payment will not be less than the amount of interest due and payable.
- 4 Generally, your lender must give you at least five years to repay your loan, unless your minimum monthly payment amount pays off your loan before that or you request a shorter repayment period.
- 5 The maximum time allowed for repayment is usually ten years.
- 6 You may prepay your loan at any time without penalty. (This will reduce the total amount of interest you pay on your loan.)
- 7 You may change your repayment plan at least once a year.
- 8 Your loan obligation will be discharged if you become totally and permanently disabled or you die.
- 9 Your loan will not be discharged automatically in bankruptcy. In order to discharge a loan in bankruptcy, you must prove undue hardship in an adversary proceeding before the bankruptcy court.
- 10 If you are a full-time teacher and received your first loan on or after October 1, 1998, you may be eligible for loan forgiveness. Contact your lender for more information.
- 11 Your lender will give you the opportunity to choose a standard, graduated, income-sensitive, or extended repayment schedule. Contact your lender for more information.

Successful Repayment

Successful loan repayment requires that you understand the process and several terms that will help you to understand your responsibility.

Staying in Touch with Your Lender

The single most important thing you can do during repayment is to stay in close contact with your lender. You are responsible for informing your lender as soon as possible when you

- Leave school or graduate,
- Drop below half-time enrollment,
- Change schools,
- Change your name, address, or phone number,
- Change employers,
- Have a deferment for which you no longer are eligible, and/or
- Have difficulty making your scheduled payments.

Grace Period

Your grace period is a transition period that allows you to prepare for the repayment of your loan. As a Stafford loan borrower, your grace period begins when you stop attending school at least half time. You can find the length of your grace period, which usually runs for six months, on your disclosure statement.

If you have a subsidized Stafford loan, you won't have to make any payments during your grace period because the federal government will continue to pay the interest due on your loan, just as it did while you were in school.

If you have an unsubsidized Stafford loan, the interest will continue to accrue during your grace period. You may choose to pay the interest that accrues on your loan during your grace period, or you may choose to have the interest capitalized and added to your loan principal.

If you have an SLS loan, you will not receive a grace period. However, if you are both an SLS and a Stafford loan borrower, you do have an option to defer (postpone) repayment of your SLS loan through the end of the grace period that you will receive on your Stafford loan. This is commonly referred to as repayment alignment. In this case, you may pay the interest that accrues on your SLS loan during this period or have that interest capitalized and added to your loan principal.

**Sometimes situations occur
that can make your lender
think you are no longer in school
when you really are.**

**If your lender notifies you
that your grace period has ended
or that repayment has begun
— and you are still in school —
contact your lender immediately
to correct your enrollment status.**

Your Responsibility

Repayment Schedule

Before your loan enters repayment, your lender will give you an opportunity to choose a repayment plan and send you a repayment schedule that will provide you with the following information:

- Your outstanding balance,
- The amount of interest expected to accrue through the life of your loan,
- Your scheduled monthly payment amount, and
- The number of scheduled payments you need to make to pay off your loan completely.

A sample Repayment Schedule and Disclosure (see page 16) shows the information you will receive on the schedule that your lender will send to you.

When you receive your repayment schedule:

- Carefully review it.
- If you can't afford the scheduled payments, contact your lender immediately to discuss alternative repayment options, such as graduated, income-sensitive, or extended payment plans.
- If you can afford to pay more than your lender has scheduled, contact your lender to find out the benefit of doing so.
- If there are no problems with the Repayment Schedule and Disclosure, sign and return a copy to your lender.

- Keep a copy for your records.

Even if you don't receive or return
a Repayment Schedule to your lender,
you are still responsible
for repaying your loan.
Your Responsibility
Contact your lender for assistance.

Repayment Details

It is your responsibility to make your regularly scheduled payments, usually monthly, to your lender. If you have questions or problems with your loan payments, contact your lender. Most lenders are willing to work with you if you continue to communicate with them and show that you are willing to honor your obligation.

You may change the repayment plan on your loan(s) at least once a year. There will be no penalty for prepaying any portion of your loans.

As you make your monthly payments, situations may occur that require you to adjust or suspend your payments temporarily. Several options are available to help you make it through these times.

- A deferment or forbearance might allow you to temporarily suspend loan payments or make smaller payments. To find out if you qualify for such an option, contact your lender.
- Loan consolidation helps some borrowers meet their responsibilities by lowering the amount of their monthly payments while extending the time of repayment. However, not all loans are eligible for consolidation, and some borrowers do not benefit from consolidation. (For more information about deferments, forbearances, and consolidations, see page 17.) If you would like to find out how these options might help you, contact your lender.

Paid-in-Full

Shortly after receiving your final payment on your student loan, your lender will send you a notice that your loan is paid-in-full, your original promissory note, or a copy of your promissory note marked "Paid-in-Full." At the same time, the lender will notify both the credit bureau and your guarantee agency.

Repayment Questions and Answers

If you have trouble making your monthly payments and need special assistance, contact your lender for help with the many repayment options available to you. In the meantime, these basic questions and answers about student loan repayment will provide you with general information about repayment.

How do I make my loan payments?

Lenders use different methods to collect payments. The most common are coupon books or monthly statements. Some lenders are able to automatically withdraw your payment from your checking account if you approve. If your lender offers you a choice of repayment methods, pick the one that's most convenient for you.

Will I always make my payments to the same lender?

Not necessarily. Sometimes lenders decide to sell their loans to other lending institutions or secondary markets. The purpose of selling loans is usually to make additional funds available so the lender can make additional loans to other borrowers.

A secondary market is an institution that purchases loans from lenders or other holders. If your loan is sold, you will be notified of the name, address, and telephone number of the new lender if the address to which you make payments changes. *The sale of your loan does not change the amount you owe or the terms of repayment.*

What is loan servicing?

Most lenders and secondary markets employ servicers to manage their student loan accounts. This may be because the lender wishes to make student loans available to its customers but does not have the staff to manage a large student loan portfolio. In this case, the lender retains ownership of its loans but contracts out administrative functions such as billings, inquiries, etc. Whether your loan is serviced by your original lender, a secondary market, or a servicing contractor, *it is important for you to maintain close contact with whoever is managing your loan(s).*

What if I can't make a payment?

Contact your lender as soon as you realize you need assistance. The worst thing you can do is simply to fail to make a payment without explanation. Lenders realize that, from time to time, everyone has financial problems, and they generally are willing to work things out with a borrower who is genuinely unable to make a payment.

Deferment and Forbearance

Help in Time of Hardship

Borrowers in certain situations may qualify to have their monthly payments suspended or reduced for a period of time. If you have difficulty making your payments, and you think you might be eligible under the terms and conditions outlined below, contact your lender, holder, or servicer immediately.

Deferment

A deferment is a period of time during which a lender temporarily postpones regular payments. Deferments are granted for specific situations set forth by Congress and have certain time limitations and conditions for eligibility. Depending on when you received your first loan, you may be eligible for a deferment if your particular situation falls into certain categories. Contact your lender, holder, or servicer to find out if you qualify for a deferment. Deferments for a borrower with an outstanding Federal Family Education Loan Program (FFELP) loan disbursed between July 1, 1987, and July 1, 1993, include:

- Full-time study at an eligible school.
- Half-time study at an eligible school.
- Study in a graduate fellowship program or a certified rehabilitation training program.
- Unemployment (less than 30 hours per week or full-time employment not expected to last more than 90 consecutive days).
- Active duty status in the Armed Forces or serving as an officer in the Commissioned Corps of the United States Public Health Service or as an active duty member of the National Oceanic and Atmospheric Administration Corps.
- Full-time volunteer under the Peace Corps Act, ACTION program, and/or other comparable program deemed eligible for deferment by the U.S. Department of Education.
- Temporary total disability of borrower or dependent.
- Internship or residency.
- Parental leave.
- Full-time teaching in a teacher shortage area as defined by the U.S. Department of Education.
- A mother of preschool age children who is entering or reentering the work force.

If your federal Stafford or SLS loan was disbursed on or after July 1, 1993, and you have no outstanding balance on a FFELP loan made prior to July 1, 1993, the following types of deferments are available.

- Full-time or half-time study at an eligible school.
 - Study in a graduate fellowship program or a certified rehabilitation training program.
 - Economic hardship.
 - Unemployment (less than 30 hours per week or full-time employment not expected to last more than 90 consecutive days).
- Deferments are entitlements. This means your lender must grant them if eligibility
 - exists. It is your responsibility to request a deferment from your lender and to follow-up that request with the documentation necessary to prove that you qualify.

If you are granted a deferment, the federal government will pay the interest that accrues on your subsidized Stafford loan during any deferment period — just as it pays the interest that accrues on a loan while you are in school. However, you will be responsible for paying the interest that accrues on any unsubsidized Stafford loan or SLS loan during deferment. Your lender may also capitalize the unpaid interest that accrues during periods of deferment on your unsubsidized Stafford loan and SLS loan.

Forbearance

Forbearance is another tool that can help you get through a period of financial difficulty. During forbearance, a lender temporarily reduces, extends, or postpones regular loan payments. This alternative is usually reserved for individuals who are not eligible for a deferment.

In some cases, a lender is required to grant a mandatory forbearance. For example:

- When medical or dental interns enrolled in an internship program have exhausted all of their deferment eligibility.
- If the borrower is serving in a national service position under the National and Community Service Trust Act of 1993.
- If the borrower is eligible for loan forgiveness.
- If annual debt burden for FFELP loans equals or exceeds 20 percent of a borrower's disposable income.

However, in most cases forbearance is granted at the lender's discretion. Lenders are usually willing to provide borrowers with the help they need to meet repayment responsibilities if the borrowers contact the lender up front and demonstrate a sincere desire to repay their debts.

Unlike deferments, the federal government will not pay interest, even on subsidized Stafford loans, during forbearance periods. *You are responsible for the interest and* may choose to pay the interest as it accrues or to have it capitalized. Capitalization may result in a higher monthly payment amount after the forbearance ends.

Deferments are entitlements.

This means your lender
must grant them if eligibility exists.

It is your responsibility
to request a deferment from your lender
and to follow-up that request
with the documentation necessary
to prove that you qualify.

**Your Right
and Responsibility**

Another Repayment Option

In addition to deferments and forbearance, another option is available to you when repaying your student loan.

Federal Consolidation

Federal loan consolidation allows eligible borrowers to combine loans obtained from more than one lender and/or several programs into one new consolidation loan. Loans eligible for consolidation must be either in grace or repayment. Defaulted loans can be considered if satisfactory repayment arrangements have been made with your lender or guarantor.

Married couples can jointly consolidate their individual student loans if the couple agrees to repay the consolidation loan regardless of the amount of their individual indebtedness and any future change in marital status.

Loans Eligible for Consolidation

The following types of federal education loans are eligible for consolidation:

- Federal Insured Student Loans (FISL)
- Federal Stafford or Guaranteed Student Loans (GSL)
- Federal Supplemental Loans for Students (SLS)
- Federal PLUS (student) or ALAS

- Federal Perkins Loans (formerly National Defense/Direct Student Loans)
- Federal PLUS (parent loans made after October 17, 1986)*
- Unsubsidized Federal Stafford Loans
- Federal Direct Loan Program Loans
- Health Professions Student Loans (HPSL)
- Loans for Disadvantaged Students
- Health Education Assistance Loans (HEAL)
- Nursing Student Loan Program (NSLP)

*Federal PLUS loans can only be consolidated with a parent's own student loans.

Consolidation Pros and Cons

Many things should be considered before making a decision to consolidate your loans. You should get all the facts and apply them to your particular situation before making a decision.

Pros

- Your payments will be centralized — you will make only one payment to one lender.
- Depending upon how much you owe, you could receive anywhere from 10 to 30 years to repay the loan. (There is a negative side associated with this aspect of consolidation loans. Read “Cons” for more details.)
- Your lender must offer you a standard, graduated, income-sensitive, or extended repayment schedule.
- The federal government will pay the interest on the underlying subsidized federal Stafford loans included in your Consolidation loan during authorized periods of deferment.

Cons

- Your interest rate could increase.
- As previously stated, your repayment terms could be extended. This means you could pay substantially more in interest on your loan.
- You could lose your eligibility for certain types of deferment. This means that you may have to make payments on your Consolidation loan when you wouldn't have had to under the terms of your original loans.

Loan consolidation is not for everyone. Before consolidating, you should consider if the immediate benefit of lower monthly payments justifies a longer payment period.

Avoiding Default

A borrower's failure to make nine monthly payments as scheduled causes a student loan to go into default. The number of repayment options available are proof that there is no reason for you to default. By following the strategies provided here and by staying in contact with your lender, you should be able to maintain a good repayment record and avoid default.

Defining Default

A borrower's failure to make nine monthly scheduled payments (eleven months for loans billed less frequently than monthly) causes his or her loan to default. When that happens, the borrower's lender files a claim with the guaranty agency that guaranteed the loan.

The trouble starts when a borrower misses a payment. If that happens to you, you should contact your lender as soon as you can to explore any possible solutions to your situation. Should you become 240 days past due (or 330 days for loans billed less frequently than monthly) in your payments, without making special arrangements with your lender, the entire amount of your loan will become due immediately. Even if you make some payment after this date, your lender may still demand payment of your loan in full. After 270 (or 330) days' delinquency, your loan is considered to be in default.

In addition, if you fail to stay in contact with your lender and your lender cannot reach you, your loan may enter default without your knowledge.

The Consequences of Default

If you default on a student loan:

- You can be sued for the entire amount of the loan.
- Your federal income tax refund can be withheld.
- Other state and federal payments can be withheld (i.e., tax refunds, wages, etc.).
- If you are employed, your disposable income may be subject to "wage withholding." This means that your employer must deduct as much as 10 percent from your weekly or monthly paycheck.
- Until satisfactory arrangements have been made to repay the default, you will be ineligible for federal financial aid (including Pell Grants, College Work-Study, and Perkins Loans).
- You may be ineligible for assistance under most federal benefit programs.
- You will be ineligible for deferments.
- Federal interest benefits will be denied to you.
- You will be liable for the costs associated with the collection of your loan, including court costs and attorney fees.
- The renewal of any professional or occupational license you hold may be denied.
- And you will still owe your loan!

Long-term Trouble

In addition to all of the previously mentioned consequences, if you default, it will be included on your credit record — and this is where the long-term trouble begins.

Every time you apply for credit, a lender will examine your credit record to see whether or not you are a good risk. A defaulted student loan could keep you from getting credit cards, car loans, home mortgages, or even educational loans for your children. The default will stay on your record for at least seven years from the date of default. During this period, you'll find it very difficult to convince anyone to extend you credit.

All of this can be avoided if you remember these five simple steps for preventing defaults:

- 1 Understand your obligations and options.
- 2 Develop a sound, realistic financial plan.
- 3 Stay in contact with your lender or servicer. If you have multiple lenders, inform each one of problems or changes in your circumstances.
- 4 Make your payments on time, or make special arrangements.
- 5 Keep copies of all correspondence, cancelled checks, and any forms you sign.

Turning to
Someone
for Help

Successfully repaying your student loan means taking a giant step toward establishing a good credit record. The information provided here can help make that a little easier. Of course, during repayment of your loan, circumstances can occur that may make it difficult for you to make your payments. Even knowing where to send your payments can sometimes be a problem.

As we have emphasized before, it is critical that you stay in close contact with your lender and try to resolve any repayment issues with them, if possible. If you have a dispute with your lender that you cannot resolve together, you can contact the Department of Education's Office of the Ombudsman. The Ombudsman makes an impartial review of unresolved borrower complaints, with the goal of providing equitable solutions for the parties involved. Students may contact the Loan Ombudsman toll free at:

1-202-377-3800

OR

Visit the Loan Ombudsman web site at:

<http://sfahelp.ed.gov>

OR

<http://ombudsman.ed.gov>