

# EXIT



## COUNSELING GUIDE FOR FEDERAL STUDENT LOAN BORROWERS



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# INTRO

Student loans, unlike grants and work-study, are borrowed money that must be repaid, with interest, just like car loans and home mortgages. You cannot have these loans canceled because you didn't like the education you received, didn't get a job in your field of study or because you're having financial difficulty. Loans are legal obligations that you'll have to repay.

## Exit Counseling:

- ▶ Is required before you withdraw, graduate, or drop below half-time attendance (even if you plan to transfer to another school)
- ▶ Helps you understand your rights and responsibilities as a student loan borrower
- ▶ Provides useful tips and information to help you manage your loans

## Federal Student Loan Programs:

William D. Ford Direct Loan (Direct Loan) Program Loans

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- ▶ Direct Subsidized Loans
- ▶ Direct Unsubsidized Loans
- ▶ Direct PLUS Loans (for graduate/professional students)

Federal Family Education Loan Program<sup>SM</sup> (FFEL<sup>SM</sup>) Loans

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- ▶ Subsidized Federal Stafford Loans
- ▶ Unsubsidized Federal Stafford Loans
- ▶ Federal PLUS Loans (for graduate/professional students)

Your school may instruct you to complete online exit counseling or choose to provide exit counseling in person.

# GETTING STARTED

**The U.S. Department of Education's (the Department's) two major federal student loan programs are the William D. Ford Federal Direct Loan Program (Direct Loan Program<sup>SM</sup>) and the Federal Family Education Loan Program (FFEL Program).**

Loans made through the **Direct Loan Program** are referred to as **Direct Loans<sup>SM</sup>**. You borrow directly from the Department. Direct Loans include Direct Subsidized Loans and Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans.

*You repay these loans directly to the federal government.*

Loans made through the **FFEL Program** are referred to as **FFEL Loans**. You borrow from a bank or other private lender, and the loans are backed by the federal government. FFEL Loans include subsidized and unsubsidized Federal Stafford Loans, Federal PLUS Loans and Federal Consolidation Loans.

*You repay a FFEL Loan to the bank or other private lender that made the loan.*

Direct Loans and FFEL Loans generally have the same terms and conditions. The major difference between the two loan programs is the source of the loan funds. Depending on which loan program(s) the school(s) you attended participated in, you may have received Direct Loans, FFEL Loans, or both.

## Types of Federal Student Loans

- ▶ **Direct Subsidized Loans and Subsidized Federal Stafford Loans (Subsidized Loans)** are for undergraduate, graduate, and professional degree students. You must have financial need to qualify for a subsidized loan. The federal government pays the interest on subsidized loans while you are enrolled at least half-time, during your grace period and during deferment periods.
- ▶ **Direct Unsubsidized Loans and Unsubsidized Federal Stafford Loans (Unsubsidized Loans)** are also for undergraduate, graduate, and professional degree students. You are not required to have financial need to qualify for an unsubsidized loan. You are responsible for paying the interest on unsubsidized loans during all periods, starting from the date the loan is first disbursed.
- ▶ **Direct PLUS Loans and Federal PLUS Loans (PLUS Loans)** are for graduate or professional degree students, and also for parents of dependent undergraduate students (this counseling session covers only PLUS loans for graduate or professional degree students). You are responsible for paying the interest on PLUS loans during all periods, starting from the date the loan is first disbursed.
- ▶ **Direct Consolidation Loans and Federal Consolidation Loans (Consolidation Loans)** allow student and parent borrowers to combine multiple federal education loans into one loan with one monthly payment.

## Loan Terminology

- ▶ **Loan** is the money borrowed from a lending institution or the Department that must be repaid.
- ▶ **Grace Period** is the six-month period after you graduate, leave school, or drop below half-time enrollment during which you are not required to make payments on subsidized and unsubsidized loans. The repayment period begins at the end of the grace period. PLUS loans do not have a grace period.
- ▶ **Master Promissory Note (MPN)** is a binding legal document that you signed before receiving your student loans and by which you agreed to repay your loan(s). You may have received more than one loan under this MPN as it covers a period of up to 10 years to pay for your educational costs, as long as your school was authorized to use the multiyear feature of the MPN and chose to do so. If your school was not authorized to use the multiyear feature of the MPN or chose not to do so, or if you did not want to receive more than one loan under the MPN, you must have signed a new MPN for each loan you received.

The MPN also contains a Borrower's Rights and Responsibilities statement that explains the terms and conditions of the loans

you received. It is important to read and save this document because you'll need to refer to it later when you begin repaying your loan.

- ▶ **Lender** is the organization that made the loan initially; the lender could be a bank, credit union, or other lending institution (for FFEL Loans); or the Department (for Direct Loans).
- ▶ **Loan Holder** is an entity that holds your loan promissory note and has the right to collect from you. Many banks sell loans, so the initial lender and the current holder could be different.
- ▶ **Loan Servicer** is an organization that handles billing and performs other loan servicing functions on behalf of the lender.
- ▶ **National Student Loan Data System<sup>SM</sup> (NSLDS<sup>SM</sup>)** is the Department's central database for student aid. NSLDS contains information about all of the student loans and other financial aid you have received through the Department's federal student aid programs. You can access this information online using your Department of Education PIN.

## REPAYING YOUR LOAN

### Loan Summary Information (NSLDS<sup>SM</sup>)

The National Student Loan Data System (NSLDS) is the Department's central database that stores information on all loans and grants made through the Department's federal student aid programs. The information displayed in the table below includes all your federal student loans as reported to NSLDS. You must contact your specific loan servicer for more detailed information on your loan(s).

**Sample Loans Summary**

Type of Loan	Loan Date	Disbursed Amount	Outstanding Principal	Outstanding Interest
STAFFORD SUBSIDIZED	01/01/2009	\$5,400	\$1,800	\$25
Total STAFFORD SUBSIDIZED			\$1,800	\$25
Total All Loans			\$1,800	\$25

Information contained on these pages reflects the most current data in the NSLDS database. The data contained on NSLDS is for general information purposes and should not be used to determine eligibility, loan payoffs, overpayment status, or tax reporting. Please consult the financial aid officer at your school or the specific holder of your debts for further information.

### Interest Rates and Payment of Interest

Interest is a charge for using borrowed money. Every borrower has to pay interest no matter what type of loan he or she has; education loans are no different.

- ▶ **Subsidized loans:** The federal government pays the interest on subsidized loans while you are enrolled in school on at least a half-time basis, during your grace period, and certain other periods.

► **Unsubsidized loans and PLUS loans:** If you borrowed an unsubsidized loan or a PLUS loan, you are responsible for paying the interest during all periods, starting from the date of the first loan disbursement. You can choose to either pay it as it accrues (for example, while you are in school or during your grace period), or let it accrue and be added to the principal balance of your loan. This is called “capitalization.”

Capitalization increases your loan principal balance and you will then have to pay interest on the increased loan principal amount. If you allow interest to be capitalized, the total amount you repay over the life of your loan will be greater than if you paid the interest as it accrued.

*The following chart is an example of capitalization. It shows the difference in the total amount you would repay on a \$15,000 Direct Unsubsidized Loan if you pay the interest as it is charged during a 12-month deferment or forbearance period, compared to the amount you would repay if you do not pay the interest and it is capitalized.*

<b>Capitalization of Interest Example</b>		
	<b>If you pay the interest as it is charged ...</b>	<b>If you do not pay the interest as it is charged ...</b>
<b>Loan Amount</b>	\$15,000	\$15,000
<b>Capitalized Interest for 12 months (at the maximum rate of 7.9%)</b>	\$0	\$1,185
<b>Principal to be Repaid</b>	\$15,000	\$16,185
<b>Monthly Payment (Standard Repayment Plan)</b>	\$181	\$196
<b>Number of Payments</b>	120	120
<b>Total Amount Repaid</b>	\$21,744	\$23,462

## Fixed and Variable Interest Rates

All Direct Loan and FFEL Program loans with a first disbursement date that is on or after July 1, 2006, have fixed interest rates that will remain the same throughout the life of the loan.

Loans that were first disbursed before July 1, 2006, have variable interest rates that are adjusted each year on July 1. For subsidized and unsubsidized loans first disbursed before July 1, 2006, the variable interest rate will never be more than 8.25%. For PLUS loans first disbursed before July 1, 2006, the variable interest rate will never be more than 9.00%.



## Fixed Interest Rates for Loans with a First Disbursement Date on or After July 1, 2006

Loan Type	Fixed Interest Rate
Subsidized Loans for undergraduate students	6.80% for loans first disbursed 07/01/2006 to 06/30/2008 6.00% for loans first disbursed 07/01/2008 to 06/30/2009 5.60% for loans first disbursed 07/01/2009 to 06/30/2010 4.50% for loans first disbursed 07/01/2010 to 06/30/2011 3.40% for loans first disbursed 07/01/2011 to 06/30/2012
Subsidized Loans for graduate/professional students and Unsubsidized Loans for all students	6.80%
PLUS Loans	7.90% for Direct PLUS Loans 8.50% for Federal PLUS Loans

## Variable Interest Rates for Loans First Disbursed Between July 1, 1998, and June 30, 2006

Loan Type	Loan Status	Interest Rate	Interest Rate
		For the Period July 1, 2008, to June 30, 2009	For the Period July 1, 2009, to June 30, 2010
Subsidized Loans	Repayment or Forbearance	4.21%	2.48%
	In-School, Grace, or Deferment	3.61%	1.88%
Unsubsidized Loans	Repayment or Forbearance	4.21%	2.48%
	In-School, Grace, or Deferment	3.61%	1.88%
PLUS Loans	Any Status	5.01%	3.28%

How is interest calculated?

Interest on all loans borrowed under the Department's federal student loan programs are calculated on a simple daily basis.

**The following formula demonstrates how the simple interest is calculated between payments**

$$\text{Average daily balance between payments} \times \text{Interest rate} \times (\text{Number of days between payments}/365.25) = \text{Monthly interest}$$

**How interest accrues between payments made on Apr. 15 and May 15, for example:**

$$\begin{aligned} \text{Average daily balance: } \$10,000 \times \text{Interest rate: } .068 \\ \text{Days between payments } (30/365.25) \times .08214 = \\ \text{Monthly interest: } \$55.86 \end{aligned}$$

## Entering Repayment:

When you graduate, withdraw from school, or drop below half-time enrollment status you will have six months before your first payment is due on your subsidized and unsubsidized loans. This is called a grace period. (PLUS Loans don't have a grace period). This time can allow you to get financially settled, select your repayment plan and determine the amount of income you need to put toward your student loan each month.

If you have subsidized loans, you will not be charged interest during your grace period. If you have unsubsidized loans, you will be responsible for the interest that accrues during the grace period. You may pay this interest as it accrues during the grace period, or you may allow it to accrue and be capitalized (added to the principal balance of your loan) when your loan enters repayment.

Your repayment period begins the day after your grace period ends. Your first payment will be due within 45 days after your repayment period begins.

As explained above, PLUS loans do not have a grace period. The repayment period for a PLUS loan begins on the day after the final loan disbursement is made. However, you may defer repayment of a PLUS loan while you are enrolled in school on at least at half-time basis and, for PLUS loans with a first disbursement date on or after July 1, 2008, for an additional six months after you graduate, withdraw, or drop below half-time enrollment status. Your first payment will be due within 45 days after your deferment ends.

If you received some PLUS loans that were first disbursed before July 1, 2008, and others that were first disbursed on or after that date, the additional six-month deferment period after you leave school or drop below half-time status is available only for your PLUS loans that were first disbursed on or after July 1, 2008. If you are unable to begin making payments on your PLUS loans that do not qualify for the additional six-month deferment period after you leave school or drop below half-time status, contact your loan holder or loan servicer to discuss options for postponing repayment on these loans until the six-month additional deferment period ends on your PLUS loans that were first disbursed on or after July 1, 2008.

## Prepayment

- ▶ You may prepay all or part of your loan(s) at any time without a penalty. You also have the option of requesting a shorter repayment schedule.
- ▶ After you have begun repaying your loans, any extra amount you pay in addition to your regular required monthly payment will reduce your outstanding principal balance, as long as accrued interest and any outstanding late charges are paid.



### ALERT...

Although your credit history was not taken into account when you received federal student loans, your credit history will be affected if you do not repay your federal student loans under the repayment plan you agree to when you enter repayment.

## Repayment Incentives

A repayment incentive is a benefit that is offered to encourage you to repay your loans on time. Under a repayment incentive program, the interest rate charged on your loans may be reduced. Some repayment incentive programs require that you make a certain number of payments on time to keep the benefits of the repayment incentive.

► The **Direct Loan Program** currently offers two repayment incentive programs

- Interest Rate Reduction for Automatic Withdrawal Payments

Under the Automatic Withdrawal payment option, your bank automatically deducts your monthly loan payment from your checking or savings account and sends the payment to the loan holder or loan servicer. In addition to helping to ensure that your payments are made on time, you receive a 0.25% interest rate reduction when you have payments made through this option.

- Up-front Interest Rebate on Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans

You may receive an up-front interest rebate on a Direct Subsidized Loan, Direct Unsubsidized Loan or Direct PLUS Loan. The rebate is equal to a percentage of the loan amount that you borrow. This is the same amount that would result if the interest rate on your loan were lowered by a specific percentage—but you receive the rebate up front. The correspondence that you receive about your loan will indicate if you received an up-front interest rebate.

To keep an up-front interest rebate that you receive on your loan, you must make all of your first 12 required monthly payments on time (the loan servicer must receive each payment no later than six days after the due date) when your loan enters repayment.

You will lose the rebate if you do not make all of your first 12 required monthly payments on time. If you lose the rebate, the loan servicer will add the rebate amount back to the principal balance on your loan account. This will increase the amount that you have to repay.

► A lender in the **FFEL Program** might offer incentives for either making on time payments or having payments automatically deducted from your savings or checking account. Contact your lender to find out if any incentives are offered.

## Repayment Plans

When it comes time to start repaying your student loan(s), you can select a repayment plan that's right for your financial situation. Generally, you'll have from 10 to 25 years to repay your loan, depending on which repayment plan you choose. The repayment plan options are generally the same in the Direct Loan and FFEL programs, except that the Income-contingent Repayment plan is available only in the Direct Loan Program, and the Income-sensitive Repayment plan is available only in the FFEL Program.

The following repayment plans are available to Direct Loan and FFEL Program subsidized, unsubsidized and PLUS loan borrowers:

- ▶ **Standard Repayment Plan:** You generally pay a fixed amount each month for up to 10 years. Your payment must be at least \$50 a month.
- ▶ **Graduated Repayment Plan:** Your payments start out low at first and then will increase, usually every two years. You must repay your loan in full within 10 years. At a minimum, your payments must cover the interest that accumulates on your loans between payments. This plan is tailored to individuals with relatively low current incomes (e.g., recent college graduates) who expect their incomes to increase in the future. However, you'll ultimately pay more for your loan than you would under the Standard Plan, because more interest accumulates in the early years of the plan when your outstanding loan balance is higher and your monthly payment is smaller.
- ▶ **Extended Repayment Plan:** If you're a FFEL borrower, to qualify for this plan you must have had no outstanding balance on a FFEL Program loan as of Oct. 7, 1998, or on the date you obtained a FFEL Program loan after Oct. 7, 1998, and you must have more than \$30,000 in outstanding FFEL Program loans. If you're a Direct Loan borrower, you must have had no outstanding balance on a Direct Loan Program loan as of Oct. 7, 1998, or on the date you obtained a Direct Loan Program loan after Oct. 7, 1998, and you must have more than \$30,000 in outstanding Direct Loans. This means, for example, that if you have \$35,000 in outstanding FFEL Program loans and \$10,000 in outstanding Direct Loans, you can choose the extended repayment plan for your FFEL Program loans, but not for your Direct Loans.

Under this plan you must repay your loans in full within 25 years. You may choose to make fixed or graduated monthly payments. Your monthly payment amount will be lower than it would be under the Standard Plan, but you'll ultimately pay more for your loan because of the interest that accumulates during the longer repayment period.

- ▶ **Income-Based Repayment (IBR):** Under IBR, the required monthly payment is capped at an amount that is intended to be affordable based on your income and family size. You are eligible for IBR if the monthly repayment amount under IBR will be less than the monthly amount calculated under a 10-year standard repayment plan. If you repay under the IBR plan for 25 years and meet other requirements, you may have any remaining balance of your loan(s) cancelled. Additionally, if you work in public service and have reduced loan payments through IBR, the remaining balance after ten years in a public service job could be cancelled. You may contact your loan holder or loan servicer, or visit [www.studentaid.ed.gov](http://www.studentaid.ed.gov) for more detailed information about the Income-Based Repayment Plan.

- ▶ **Income-Sensitive Repayment Plan (for FFEL Program loans only):** With an income-sensitive plan, your monthly loan payment is based on your annual income. As your income increases or decreases, so do your payments. The maximum repayment period is 10 years. Contact your loan holder or loan servicer for more information about this repayment plan.
- ▶ **Income-Contingent Repayment Plan (for Direct Subsidized and Unsubsidized Loans and Direct PLUS Loans for Graduate and Professional Students):** Your monthly payments will be based on your annual income (and that of your spouse, if married), your family size, and the total amount of your Direct Loans. Borrowers have 25 years to repay under this plan, the unpaid portion will be forgiven. However, you may have to pay income tax on the amount that is forgiven.

Direct Subsidized Loans, Direct Unsubsidized Loans and Direct PLUS Loans for graduate and professional student PLUS borrowers may be repaid under the income-contingent repayment (ICR) plan. Direct PLUS Loans for parent borrowers may not be repaid under ICR.

## Repayment Options

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### ***Key Facts About Repaying Your Loans***

If you don't choose a repayment plan or do not provide additional documentation that is required for certain repayment plans, your loan holder or loan servicer will place your loan on the Standard Repayment Plan.

You might want to switch repayment plans later if a different plan would work better for your current financial situation. Under the FFEL Program, you can change repayment plans once a year. Under the Direct Loan Program, you can change plans any time as long as the maximum repayment period under your new plan is longer than the time your Direct Loans have already been in repayment. If you want to change repayment plans, contact your loan holder or loan servicer.

Except for periods of economic hardship deferment under the Income-Based Repayment Plan, periods of deferment or forbearance do not count toward the maximum length of time you have to repay your loans.

### **Making Payments**

When you make your payments on time, you may qualify for certain repayment benefits—and you are taking steps toward building a solid credit history. If you can't make your payments—don't just ignore your loan debt—it won't go away. There are many ways to get help, including changing your payment due date, changing your repayment plan, and deferment or forbearance.

## Estimated Monthly Payments for Direct Loan Program and FFEL Program Loans

### Non-Consolidation Borrowers<sup>1</sup>

Debt When Loan Enters Repayment	Standard		Extended Fixed		Extended Graduated		Graduated	
	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
\$5,000	\$58	\$6,904	N/A	N/A	N/A	N/A	\$40	\$7,275
10,000	115	13,809	N/A	N/A	N/A	N/A	79	14,550
25,000	288	34,524	N/A	N/A	N/A	N/A	198	36,375
50,000	575	69,048	347	104,109	284	112,678	396	72,749
100,000	1,151	138,096	694	208,217	568	225,344	792	145,498

Debt When Loan Enters Repayment	Income Contingent <sup>2</sup> Income = \$25,000				Income-Based <sup>2</sup> Income = \$25,000			
	Single		Married/HOH <sup>3</sup>		Single		Married/HOH <sup>3</sup>	
	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
\$5,000	\$37	\$8,347	\$36	\$11,088	N/A	N/A	\$39	\$8,005
10,000	75	16,699	71	22,158	110	13,672	39	16,081
25,000	186	41,748	178	55,440	110	45,014	39	60,754
50,000	247	93,322	189	122,083	110	109,623	39	92,704
100,000	247	187,553	189	170,153	110	118,058	39	97,020

### Consolidation Borrowers<sup>4</sup>

Debt When Loan Enters Repayment	Standard		Extended Fixed		Extended Graduated		Graduated	
	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
\$5,000	\$61	\$7,359	N/A	N/A	N/A	N/A	\$38	\$7,978
10,000	97	17,461	N/A	N/A	N/A	N/A	69	19,165
25,000	213	51,123	N/A	N/A	N/A	N/A	172	55,491
50,000	394	118,264	394	118,264	344	126,834	344	126,834
100,000	751	270,452	788	236,528	688	253,660	688	286,305

Debt When Loan Enters Repayment	Income Contingent <sup>2</sup> Income = \$25,000				Income-Based <sup>2</sup> Income = \$25,000			
	Single		Married/HOH <sup>3</sup>		Single		Married/HOH <sup>3</sup>	
	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
\$5,000	\$40	\$9,414	\$38	\$12,294	N/A	N/A	\$39	\$7,818
10,000	80	18,828	77	24,587	110	17,638	39	22,414
25,000	201	47,069	189	61,588	110	59,451	39	52,725
50,000	247	106,630	189	137,766	110	91,388	39	78,816
100,000	247	187,553	189	170,153	110	117,343	39	97,020

<sup>1</sup> Payments were calculated using a fixed interest rate of 6.8% for Direct Subsidized and Unsubsidized Loans disbursed on or after July 1, 2006.

<sup>2</sup> Assumes a 5% annual income growth (Census Bureau).

<sup>3</sup> HOH is Head of Household. Assumes a family size of two.

<sup>4</sup> Payments are calculated using the maximum interest rate for consolidation loans, 8.25%.

Information contained on this page reflects the most current data in the NSLDS database. The data contained on this site is for general information purposes and should not be used to determine eligibility, loan payoffs, overpayment status, or tax reporting. Please consult the financial aid officer at your school or the specific holder of your debts for further information.



### **Remember:**

- You must make payments on your loan even if you don't receive a bill or repayment notice.
- Billing statements (or coupon books) are sent to you as a convenience. You're obligated to make payments even if you don't receive any reminders. Contact your lender or loan servicer to discuss setting up automatic payments.
- You must also make monthly payments for the full amount required by your repayment plan. Partial payments do not fulfill your obligation to repay your student loan on time.
- If you are making late or partial payments, contact your loan holder or loan servicer immediately for help.
- If you are having trouble making your scheduled monthly payment, there are options to help. You may be able to lower your monthly payment by changing to a different repayment plan or you may be able to temporarily postpone your payments through deferment or forbearance.
- If you apply for a deferment or forbearance, you must continue to make payments until you have been notified that your request has been approved.

## HAVING TROUBLE MAKING PAYMENTS?

Under certain circumstances you can receive a deferment or forbearance that allows you to temporarily postpone making loan repayments. Except for periods of economic hardship deferment under the Income-Based Repayment Plan, periods of deferment or forbearance do not count toward the maximum length of time you have to repay your loans.

### **Deferments**

A deferment is a period in which repayment of the principal balance is temporarily postponed if you meet certain requirements. During a deferment, the government pays the interest on subsidized loans.

For all unsubsidized loans and PLUS loans, you are responsible for paying the interest that accrues during the deferment period. You may pay the interest as it accrues during the deferment period, or allow it to be capitalized (added to the principal balance).

#### Deferment Conditions

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- ▶ Enrolled at least half-time at an eligible postsecondary school (an eligible school is one that is approved to participate in the Department's federal student aid programs)
- ▶ Study in an approved graduate fellowship program or in an approved rehabilitation training program for the disabled
- ▶ Unable to find full-time employment (for up to three years)
- ▶ Economic hardship (includes Peace Corps Service) (for up to three years)

- ▶ A member of the National Guard or other reserve component of the U.S. Armed Forces (current or retired) who is called or ordered to active duty while enrolled at least half-time at an eligible school, or within six months of having been enrolled at least half-time. (eligible for a deferment during the 13 months following the conclusion of the active duty service, or until the borrower returns to enrolled student status on at least a half-time basis, whichever is earlier)
- ▶ While borrower is on active duty during a war or other military operation or national emergency and if the borrower was serving on or after Oct. 1, 2007 (eligible for a deferment for an additional 180-day period following the demobilization date for the qualifying service)

If you received a FFEL Program loan before July 1, 1993, additional deferment options may be available. Contact your loan holder or loan servicer for more information.

If you do not meet the requirements for a deferment, you may still be eligible for a forbearance.



### **Remember:**

You **MUST** continue making payments on your student loan until you have been notified that your request for deferment or forbearance has been granted. If you don't, and it is not approved, you will become delinquent and may default on your loan.

## **Forbearance**

If you do not meet the requirements for a deferment, a forbearance allows you to postpone or reduce your monthly payment amount for a limited and specific period if you are temporarily unable to make your scheduled loan payments for reasons including, but not limited to, financial hardship or illness.

You are responsible for paying the interest that accrues during the forbearance on all loan types, including subsidized loans. When you resume making payments at the end of the forbearance period, any unpaid interest will be capitalized (added to the principal balance).

## **Applying for Deferment or Forbearance**

Receiving deferment or forbearance is not automatic. You must contact your loan holder or loan servicer.

## **Delinquency and Default**

It is very important that you make your loan payments on time. If you are having trouble making your monthly payment, you should immediately contact your loan holder or loan servicer.

You've made a commitment to yourself and your future. Be a responsible borrower—you don't want to default on your student loan. Default is the failure to repay your loan according to the terms of the promissory note, provided that the failure persists for at least 270 days.



Loan default has serious consequences:

- ▶ Your entire loan balance (principal and interest) will be due in full immediately.
- ▶ Your college records may be placed on hold.
- ▶ You'll lose eligibility for loan deferment.
- ▶ You won't be eligible for additional federal student aid.
- ▶ Your account may be turned over to a collection agency and you'll have to pay additional charges, late fees and collection costs, all of which become part of your debt.
- ▶ Your credit rating will be damaged for several years because defaulted loans are reported to national credit bureaus.
- ▶ You'll have difficulty qualifying for credit cards, a car loan, a mortgage, or renting an apartment (credit checks are required to rent an apartment).
- ▶ Your federal and state income tax refunds can be withheld and applied to student loan debt. This is called a tax offset.
- ▶ You may have a portion of your wages garnished (withheld).
- ▶ You may not be able to obtain a professional license or get hired by an employer that performs credit checks.

### Remember... Don't Default!



#### Remember:

- Make a budget and stick with it.
- If you don't understand something, call your loan holder or loan servicer or your financial aid office.
- Keep all student loan documents in a file.
- Open all your mail and read everything pertaining to your student loans.
- Keep in contact with your loan holder or loan servicer.
- Make all regularly scheduled payments.
- Ask your loan holder or loan servicer for help if you have difficulty making payments. There are options for you.
- Borrowing is an investment in your future.

### Loan Consolidation

A consolidation loan may help make payments more manageable by combining several federal student loans into one loan with one monthly payment. You need to apply for loan consolidation and choose a standard, an extended, a graduated, an income-contingent (for Direct Consolidation Loans), an income-sensitive (for FFEL Consolidation Loans), or an income-based repayment plan. Depending on the amount of your debt, standard and graduated repayment plans have 10- to 30-year repayment periods.

The interest rate for both Direct and FFEL Consolidation Loans is a fixed rate for the life of the loan. The fixed rate is based on the weighted average of the interest rates on all of the loans you consolidate, rounded up to the nearest one-eighth of 1%. However, the interest rate will never exceed 8.25%.

How can consolidation help me manage my debt?

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Loan consolidation can offer you benefits to help manage your education debt. You can:

- ▶ Make lower monthly payments by increasing the repayment period. (However, this will increase the total amount you repay over the life of your loan.)
- ▶ Make a single monthly loan payment on one bill to one lender.

As with other loan types, you may prepay a consolidation loan without penalty and may change repayment plans if you find that your current plan no longer meets your needs.

Is there a downside to consolidation?

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Although consolidation can help many students manage their monthly payments, there are some cases when consolidation may not be right for you.

- ▶ You may lose certain benefits (such as cancellation benefits, interest subsidies, etc.) that were offered on the loans being consolidated. Borrower benefit programs may vary among different consolidation lenders.
- ▶ If you are close to paying off your student loans, it may not make sense to consolidate. By extending the years of repayment for your loans, you may be increasing the total amount you have to pay in interest.
- ▶ Discuss your options with the financial aid office at your school.

## DISCHARGE AND FORGIVENESS

### Loan Discharge

You are generally obligated to repay your student loan(s), even if you do not complete your program of study, do not complete the program within the normal timeframe for completing it, are unable to obtain employment after you complete your program, or are otherwise dissatisfied with or do not receive the educational or other services that you purchased from the school. However, there are a few situations in which your loan may be discharged and your repayment obligation cancelled or forgiven:

- ▶ You die.
- ▶ You become totally and permanently disabled and meet certain additional requirements.
- ▶ Your loan is discharged in bankruptcy. (Federal student loans are not automatically discharged in bankruptcy. You must prove to the bankruptcy court that repaying the loan would cause undue hardship.)

- ▶ You are unable to complete your program of study due to the closing of your school.
- ▶ Your school falsely certified your loan eligibility.
- ▶ A loan in your name was falsely certified as a result of a crime of identity theft.
- ▶ Your school failed to refund required loan funds to your lender on your behalf.

## Loan Forgiveness Programs

A portion of any student loan(s) you received under the Direct Loan or FFEL program after Oct. 1, 1998, may be forgiven under the Teacher Loan Forgiveness Program. To qualify, you must teach full time for five consecutive years in certain low-income elementary or secondary schools or low-income educational service agency and meet certain other qualifications. In addition, you must not have had an outstanding balance on a Direct Loan or FFEL Program loan as of Oct. 1, 1998, or as of the date you obtain a loan after Oct. 1, 1998.

A Public Service Loan Forgiveness Program is also available and will forgive or cancel the remaining balance due on your eligible Direct Loan Program loans after you have made 120 payments on those loans (after Oct. 1, 2007) under certain repayment plans while you are employed in certain public service jobs. You may consolidate your FFEL Program loans into the Direct Loan Program to take advantage of the Public Service Loan Forgiveness Program.

## RESOURCES

### Financial Literacy

Money Management Tips:

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Money management is just as important after you leave school as when you were attending. But your income will now come from work earnings rather than from student aid and you'll probably have some different expenses when you start your new job. The following tips will help you manage your money so that you can meet your household expenses and keep making on-time loan payments. In the process, you will be establishing a good credit rating, which is a key to your financial independence.

- ▶ **Develop a budget that includes items like rent, car payments, utility bills, food, clothing, insurance, and entertainment, so you have an accurate picture of your monthly expenses (in addition to your loan payments). You may use the budget outline on page 17 as an example.** It's easy to underestimate or overlook some of these expenses, so you may want to round each of your estimated costs up. If your income is less than your expenses, you'll need to find ways to cut your expenses. If you find you just can't make the loan payments, contact your loan holder or loan servicer to discuss options that may help, such as changing repayment plans, or deferment or forbearance.

## Subsidized/Unsubsidized and PLUS Loan Discharge and Cancellation Summary Chart

Discharge/Forgiveness Condition	Amount Discharged/ Forgiveness	Notes
Borrower's total and permanent disability or death.	100%	For a PLUS Loan, includes the death, but not disability, of the student for whom the parents borrowed.
Full-time teacher for five consecutive years in a low-income elementary or secondary school or low-income educational service agency. Must meet additional eligibility requirements.	Up to \$5,000 (up to \$17,500 for teachers in certain specialties) of the total loan amount outstanding after completion of the fifth year of teaching.  Under the Direct and FFEL Consolidation Loan programs, only the portion of the consolidation loan used to repay eligible Direct Loans or FFEL Loans qualifies for loan forgiveness.	For Direct and FFEL Subsidized/ Unsubsidized Loan borrowers with no outstanding balance on a Direct or FFEL Loan on Oct. 1, 1998, or on the date they received a loan on, or after that date. PLUS Loans are not eligible.  To find out whether your school or educational agency is considered low-income, go to <a href="http://www.FederalStudentAid.ed.gov">www.FederalStudentAid.ed.gov</a> . Click on "Students, Parents and Counselors." Or call 1-800-4-FED-AID (1-800-433-3243).
Bankruptcy (in rare cases)	100%	Cancellation is possible only if the bankruptcy court rules that repayment would cause undue hardship.
Closed school (before student could complete program of study) or false loan certification.	100%	For loans received on or after Jan. 1, 1986.
<b>For Direct Loan Program Borrowers Only</b> —Full-time employee of a qualifying public service organization. Must meet additional eligibility requirements. FFEL Program borrowers may qualify by consolidating into the Direct Loan Program.	The remaining balance on an eligible Direct Loan will be forgiven for a borrower who makes 120 monthly payments on the loan, under certain repayment plans, after Oct. 1, 2007. Each of the required 120 payments must be made while the borrower is employed full-time by a qualifying public service organization.	For additional information, go to: <a href="http://www.studentaid.ed.gov">www.studentaid.ed.gov</a>

- ▶ **As a borrower, know your student loan rights and responsibilities.** Make sure to apply for a deferment if you're going back to school or are eligible for an unemployment or economic hardship deferment. Keep your loan holder or loan servicer informed of your address, phone number and other information, and contact your servicer if you're having trouble making payments. Keep your loan paperwork in a safe place, including your promissory note, disclosure notices and billing statements. Remember, talk to your servicer when you have questions or concerns.
- ▶ **Make the most of your grace period.** Each of your Subsidized and Unsubsidized Loans has a six-month grace period, and you don't have to start making payments until it ends. There is no grace period for PLUS Loans, but you may defer repayment on PLUS Loans that were first disbursed on or after July 1, 2008, for an additional six months after you graduate, withdraw from school, or drop below half-time

enrollment status. Your grace period is an excellent time to get your finances in order. If you are working, you can use the grace period to get a head start on repaying your loans. By making some payments during the grace period, you can reduce the interest costs for your loan. These payments don't have to be set monthly amounts—you can choose to prepay some of your loan or just to pay the interest that is charged on any of your loans that are unsubsidized.

## Budget Calculator

- ▶ You should develop a budget that includes items like rent, car payments, utility bills, food, clothing, insurance, and entertainment, so you have an accurate picture of your monthly expenses (in addition to your loan payments).
- ▶ You may use the budget outline below as an example.

Monthly Budget	
Estimated Monthly Salary	\$ _____
Estimated monthly student loan payment	\$ _____
Rent or mortgage	\$ _____
Utilities (gas, electric, phone)	\$ _____
Transportation (car payments, gas)	\$ _____
Groceries	\$ _____
Entertaining/dining out	\$ _____
Average allowance for non-monthly expenses	\$ _____
Total Expenses	\$ _____

## Additional Information

### Help with Resolving a Problem or Dispute

It is important to keep all of your student loan papers and correspondence for your records. If you have a problem with a federal student loan, you should contact your loan holder or loan servicer to try and resolve the problem. If you are unable to resolve the problem on your own, you may contact the Federal Student Aid (FSA) Ombudsman for assistance. The FSA Ombudsman works with federal student loan borrowers to resolve loan disputes or problems from an impartial, independent viewpoint. You can reach FSA Ombudsman at:

### Office of the Ombudsman

U.S. Department of Education  
830 First Street NE  
4th Floor UCP-3/MS 5144  
Washington, DC 20202-5144

Toll-free phone: (877) 557-2575

Internet: [fsahelp.ed.gov](http://fsahelp.ed.gov) or [ombudsman.ed.gov](http://ombudsman.ed.gov)

## Tax Benefits for Education

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There are many tax credits, deductions and savings plans available to taxpayers to assist with the expense of higher education.

- ▶ A tax credit reduces the amount of income tax you may have to pay.
  - American Opportunity Credit
  - Hope Tax Credit
  - Lifetime Learning Tax Credit
- ▶ A deduction reduces the amount of your income that is subject to tax, thus generally reducing the amount of tax you may have to pay.
  - College Tuition and Fees Deduction
  - Student Loan Interest Deduction

You should contact a tax advisor or visit [www.irs.gov](http://www.irs.gov) for detailed information on tax credits, deductions or other tax benefits for postsecondary students.

## Resource Publications

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Federal Student Aid offers several publications to help you understand the financial aid process. Two publications that may help you manage your federal student loans are *Funding Education Beyond High School—The Guide to Federal Student Aid* and *Your Federal Student Loans—Learn the Basics and Manage Your Debt*. To request a copy, download an electronic version or view a complete list of publications, visit [www.studentaid.ed.gov](http://www.studentaid.ed.gov) and click on “Publications” from the “Tools and Resources” link.

## Additional resources that you may find helpful.

Resource	Web Address
Direct Consolidation Loans	<a href="http://www.loanconsolidation.ed.gov">www.loanconsolidation.ed.gov</a>
PIN Site	<a href="http://www.pin.ed.gov">www.pin.ed.gov</a>
TEACH Grant recipients	<a href="https://teach-ats.ed.gov">https://teach-ats.ed.gov</a>
Public Service Loan Forgiveness	<a href="http://www.studentaid.ed.gov">www.studentaid.ed.gov</a>
Income Based Repayment	<a href="http://www.studentaid.ed.gov">www.studentaid.ed.gov</a>
NSLDS	<a href="http://www.nsls.ed.gov">www.nsls.ed.gov</a>
Federal Student Aid Ombudsman	<a href="http://www.ombudsman.ed.gov">www.ombudsman.ed.gov</a>

# BORROWER'S RIGHTS AND RESPONSIBILITIES

Your school may ask you to sign this checklist to document that you completed exit counseling.

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I understand I have the right to:

- ▶ Written information on my loan obligations and information on my rights and responsibilities as a borrower
- ▶ A copy of my MPN either before or at the time my loan is disbursed
- ▶ A grace period and an explanation of what this means
- ▶ 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 disclosure statement, received before I begin to repay my loan, that includes information about interest rates, fees, the balance I owe, and a loan repayment schedule
- ▶ Deferment or forbearance of repayment for certain defined periods, if I qualify and if I request it
- ▶ Prepayment of my loan in whole or in part anytime without an early-repayment penalty
- ▶ Documentation that my loan is paid in full

I understand I am responsible for:

- ▶ Completing exit counseling before I leave school or drop below half-time enrollment
- ▶ Repaying my loan according to my repayment schedule even if I do not complete my academic program, I am dissatisfied with the education I received, or I am unable to find employment after I graduate
- ▶ Notifying my lender or loan servicer if I:
  - Move or change my address
  - Change my telephone number
  - Change my name
  - Change my social security number
  - Change employers or my employer's address or telephone number changes
- ▶ Making monthly payments on my loan after my grace period ends, unless I have a deferment or forbearance
- ▶ Notifying my lender or loan servicer of anything that might alter my eligibility for an existing deferment or forbearance

*I have received exit counseling materials for Direct Loan borrowers.  
I have read and I understand my rights and responsibilities as a borrower.  
I understand that I have a loan from the federal government that must be repaid.*

---

Student's Signature

Date

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Student's Name (Please Print)

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left blank**



## STUDENT CONTACT INFORMATION

You may use this sheet to update the contact information kept by your loan servicer. Your school must update this information with the servicer after you've completed exit counseling. You are also required to notify your loan servicer of any changes to this information after you leave school. You must complete all items except those marked as optional.

### Personal (Please print clearly)

---

Last Name, First Name (Middle Name is Optional)

---

Street Address

---

City, State, Zip Code/Postal Code, Country

---

Area Code/Telephone Number

Email Address (Optional)

---

Driver's License or State ID number (Optional)

Issuing State (Optional)

### Employer (optional if not known)

---

Expected employer (after leaving school)

---

Street Address

---

City, State, Zip Code/Postal Code, Country

**Important: you must provide contact information for next of kin and two references on the back of this page.**

# STUDENT CONTACT INFORMATION

Page 2

Enter next of kin with a U.S. address different from yours, who will know your whereabouts for at least 3 years

---

Last Name, First Name

---

Street Address

---

City, State, Zip Code

---

Area Code/Telephone Number

References: You must list 2 persons with different U.S. addresses, who will know your whereabouts for at least 3 years

**1**

---

Last Name, First Name

---

Street Address

---

City, State, Zip Code

---

Area Code/Telephone Number

**2**

---

Last Name, First Name

---

Street Address

---

City, State, Zip Code

---

Area Code/Telephone Number



