CHAPTER 1

Entrance Counseling Information

Students entering college often must make important financial decisions with relatively little prior experience with legal obligations and promissory notes.

This chapter will help you to explain repayment obligations and options. The following pages are written for the borrower, and will provide most of the information required for entrance counseling. Of course, counseling can also be done over the Web—see Volume 8, Chapter 5 for more information about counseling requirements.

You may wish to customize some of these fact sheets to make them more relevant to your school's loan procedures. In particular, you might want to use your own examples for "Budgeting while you're in school" and "How your loan will be paid." If your school doesn't use the multi-year feature of the Master Promissory Note, you need not provide the student with that fact sheet.

If you have copies of the "Borrower's Rights and Responsibilities" statement and/or an estimated repayment plan, it's a good idea to go over this information with your students and point out some of the key terms and conditions of the loan.

Many schools treat loan counseling as an ongoing process as the student progresses through school and makes decisions about additional borrowing and possible postgraduate study.

Elements of entrance counseling not provided in these materials

- ▲ The student should receive an estimate of average indebtedness and monthly payments. This can be provided by the lender.
- ▲ You can provide information about other sources of aid, such as aid from your state agency or academic scholarships.
- ▲ You can review school and federal policies affecting withdrawals, including satisfactory progress, refunds, and the "Return of Funds" to the federal programs.

Best Practices in Default Management

from National Default Prevention Day

• During orientation at the beginning of a term, give loan counseling materials to parents as well as students; invite parents to attend loan counseling sessions.

• Provide counseling to students each year, prior to loan disbursements.

• Offer one-on-one counseling covering estimated college costs, in-school budgeting, and how much to borrow based on expected salary and monthly loan payments.

• Collect new references for your student borrowers each fall and spring at registration—make sure school staff are alert to the opportunity to update address information when contacted by students or parents.

• Use e:mail to send newsletters to borrowers and parents each semester.

• Monitor attendance to identify potential unofficial withdrawals and counsel students.

• Hold debt management seminars in the community for parents and students.

FEDERAL STUDENT LOANS IN A NUTSHELL

Loans from private lenders, guaranteed by the government

The U.S. Department of Education sponsors Stafford and PLUS loans (for parents) to help students with college costs. The money for your loan will come from a bank, credit union, or other lending institution.. Several thousand lenders participate in the Stafford and PLUS programs. You can check with a bank that you know to see if they make these loans, or you can check with the financial aid office at your school for some suggestions.

Many lenders offer their own student loans. You can take out a Stafford or PLUS loan and still take out a student loan from a bank if you need more money. Stafford and PLUS loans may be easier for you to get, even if you don't have a credit history yet, because the government guarantees the lender that the loan will be repaid. Stafford and PLUS loans also have in-school deferment periods when you don't have to repay the loan.

subsidized Stafford loans

Some Stafford loans have another advantage—if your income is low enough when you apply for aid, you may get a subsidized loan. The government pays the interest on these loans when you're in school or in a deferment. See the next page for more information on these loans, which are called *subsidized* Stafford loans.

who is eligible

To get a Stafford loan, you have to meet most of the basic eligibility requirements for the SFA programs. The most important of these requirements are:

- ▲ You must be a citizen or permanent resident of the United States.
- ▲ You must have a high school diploma or equivalent, or pass a test showing that you have the ability to benefit from the educational program.
- ▲ You must be enrolled at least half time at a school that participates in these loan programs.

how much can I borrow?

These are *maximum amounts*—depending on your financial need and program of study you may not get the full maximum amount. Even if you are eligible for the maximum loan amount, consider whether you need to borrow the full amount.

	Dependent student	Independent student
First year:	$2,625	$6,625
Second year:	$3,500	$7,500
Third year:	$5,500	$10,500
Fourth year:	$5,500	$10,500
Total undergraduate debt:	$23,000	$46,000

what are my repayment options?

You can choose the **standard repayment plan** (10 years), or **graduated** or **income-sensitive** repayment. If you have over $30,000 in Stafford loans, you can get an **extended** repayment plan. A further option is to **consolidate** your loans with one of your lenders. In each of these cases, bear in mind that while a longer repayment period reduces your monthly payments, it will increase the total interest that you pay on the loan.

what can I do if I have trouble making payments?

If you have trouble repaying your loans because you have returned to school, are unemployed, or have a very low income, you may be able defer your loan payments. Stay in touch with your lender—your lender may be able to offer you a forbearance if you're having financial or other trouble.

INTEREST ON YOUR LOAN

Federal Student Loan Fact Sheet
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Repayment Estimators on the Web
http://mapping-your-future.org

Your loan has a **variable interest rate** that could change as often as once a year, but will never exceed 8.25 percent. The interest rate is recalculated each year on July 1, and the holder of your loan will notify you of the new rate for the coming year.

Stafford Loans are either subsidized or unsubsidized, and you can get both types of loans for the same enrollment period. With a **subsidized** Stafford loan, the federal government "subsidizes" the loan by paying the interest while you're going to school at least half-time, while you're in the 6-month grace period after you leave school, and during authorized periods of deferment. A subsidized Stafford loan is based on your financial need, as determined by your cost of attendance minus the EFC (Expected Family Contribution) on your Student Aid Report and any other aid you'll be getting. If you qualify for a subsidized loan less than the Stafford loan limit, you can borrow an additional amount in the form of an unsubsidized Stafford Loan.

An **unsubsidized** loan is easier to get because you can use it to replace your EFC—in effect, the EFC will not reduce the amount you can borrow. Interest accrues from the time the loan is disbursed until it is paid in full, including periods of deferment. The interest that accumulates while you're in school, in the grace period, or in a deferment will usually be **capitalized**—that is, the interest will be added to the principal amount of your loan and additional interest will be based upon the higher amount. You can reduce the amount of interest that you pay by paying the interest as it accrues each month while you're in school, grace, or deferment.

Subsidized vs. unsubsidized loan example

Subsidized: Janeane G. takes out a $2,625 Stafford Loan to attend a nine-month pharmacology program. The cost of the course is $3,000 and the school uses an estimate of $4,000 for her living expenses. Janeane has an EFC of 2,000, so her financial need is $5,000. Because of her financial need, the Stafford loan is subsidized. Because the loan is subsidized, the federal government pays the interest while she's in school and in the 6-month grace period. When the grace period ends and she begins repayment, her indebtedness is limited to the amount she originally borrowed, $2,625. At that point, she will begin to be charged for the interest that accrues on her loan.

Unsubsidized: If Janeane is an independent student, she can borrow up to $6,625 in Stafford Loans. However, no more than $2,625 of this amount can be subsidized. She borrows an additional $4,000 unsubsidized Stafford Loan. (Remember that an unsubsidized Stafford Loan can replace Janeane's EFC.)

Because of the interest that accrues on the unsubsidized loan while she's in school, Janeane will owe more than just the $4,000 loan principal when she enters repayment. For instance, if the interest rate was 6.5% during that period, approximately $217 in interest will accumulate between the last disbursement and the end of her 6-month grace period. If the lender "capitalizes" this interest, Janeane will owe $4,217 when she enters repayment.

If Janeane chooses to pay the interest (approximately $22) each month, she'll only owe the original $4,000 loan when she enters repayment. Because she paid the interest while she was in school rather than deferring the interest and capitalizing it, she'll end up paying less in total interest on the loan (for instance, at 6.5% interest, about $79 less).

The difference: Janeane is not charged for any interest on the subsidized loan while she's enrolled at least half-time, in the grace period after she leaves school, or in a period of deferment. Interest begins to accumulate on the unsubsidized loan as soon as each loan payment is made.

The lender will usually defer the interest on an unsubsidized loan while the borrower is in school, grace, or deferment. The interest will be added to her unsubsidized loan when she enters repayment. Janeane can tell her lender that she wants to pay the interest on the unsubsidized loan while she's in school, in the grace period, or in a deferment period. Paying the interest as it accrues will reduce the total interest she'll have to pay on the loan.

Longer programs: Keep in mind that the accumulated interest on an unsubsidized Stafford will be much greater if the loan is deferred for longer periods. For instance, an unsubsidized loan to a first-year student at a typical college will be accruing interest for approximately 4 years while the student is completing the program and in the grace period.

* For simplicity's sake, these examples assume that Janeane has chosen the standard repayment plan. Interest costs during extended, income-sensitive, and graduated repayment are usually greater.

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HOW MUCH SHOULD YOU BORROW?

You shouldn't borrow more than you can repay, so you need to think about how much you are likely to earn and what your expenses will be when you get out of school. We'll provide a worksheet that helps you to organize this information.

Once you have an idea of what your available income will be, you'll need to look at the full cost of borrowing, including the interest that you will have to pay on your loan(s).

How much will you make?

A good source of information on jobs is the *Occupational Outlook Handbook,* published by the U.S. Department of Labor. It includes information about working conditions, educational requirements, and whether it's a growing career field or not. To give you a general idea of what's available, here are average or median salaries for some popular career choices:

Architect—$30-35,000	**Lawyer —$50-60,000**	**Teacher (K-12)—$25,700**
Technical writers—$39,200	**Dental hygienist—$44,000**	**Registered nurse—$40,000**

While actual salaries vary a great deal depending on location and experience in the field, you can use these figures as a starting point for your planning. To estimate your monthly salary, simply divide the annual salary by 12. (For instance, a registered nurse making $36,000 a year would have a monthly salary of $3,000.)

Occupational Outlook Handbook
http://stats.bls.gov/ocohome.htm

How much will you spend?

Let's take a look at your expenses, starting out by assuming that you spend 1/4 of your income on rent and another 1/4 goes to state and federal taxes.

Utilities	
Gas	________
Electricity	________
Telephone	________
Water	________
Transportation	
Bus/subway/taxi	________
Parking	________
Gas/car maintenance	________
Car payments	________
Car insurance	________
Food and personal	
Groceries	________
Clothes	________
Dining out	________
Laundry/dry cleaning	________
Entertainment	________
Health insurance, etc.	
TOTAL:	

Use the list to the left to estimate your other expenses. You should estimate on the high side, because there will always be some unexpected expenses. If you don't have a car or pay utilities, but expect to have those costs when you graduate, ask your parents or a friend for a good estimate.

To figure your fixed household expenses, then, divide your monthly income in half, and then subtract the total other expenses (from the chart).

Monthly Income
– Total Monthly Expense
= Available Income

So what's the answer?

Your available income will give you an idea of how much you can afford to pay each month towards your student loan debt. You need to have some income left over, however, for things like emergencies, savings for retirement, or other reasons.

As you look at the monthly payment amounts, keep in mind your available income, as you've calculated it on this page. For instance, if you estimate that your available income will be $150 a month, you would have little concern about borrowing $5,000 and making payments of $58 a month. However, you might think twice about borrowing $10,000 and making payments of $116 a month.

USING THE MASTER PROMISSORY NOTE FOR MULTIPLE LOANS

The Master Promissory Note simplifies your loan paperwork, because it can cover Stafford Loans for all of your years of study at a four-year school, as well as graduate study at the same school. If your lender doesn't change, you can even use your MPN at another school. But don't forget to submit a Renewal FAFSA every year—your financial aid information has to be updated annually.

Confirming that you want another loan

It's very important that you be aware of the amount of your loan indebtedness, so you will receive a notice before funds from a new loan are disbursed to your account. The notice will give you the opportunity to tell your school if you don't want to take out another loan. This notice may be combined with other information that the school must send you about your loan disbursement, so always read your loan notices carefully and keep good records.

When you have to get a new MPN

It's possible for your Master Promissory Note to expire. If no disbursements are made under that MPN in the 12 months after you signed it, you'll need to sign a new MPN. Your MPN is good for ten years, but if your studies continue for more than ten years you'll need to get a new one.

Also, you always have the option to decline the multi-year feature of the MPN, which means you would sign a separate promissory note for every loan you get. If your loan was made through a bank or other private lender, the cancellation request must be made to the lender in writing. The effective date is the date the lender receives your request. If you cancel the multi-year authorization on a loan that has not been completely disbursed, your school may make any remaining scheduled disbursements on the loan for that school year, unless you tell the school to cancel or adjust the disbursements.

Example of a multi-year MPN

As a simple example, let's say that Marie Curie signs a Master Promissory Note in her freshman year at the Romulan Institute of Technology. She gets a first Stafford Loan in the amount of $2,625, paid at the beginning of the fall and spring semesters. Next August, after she's filed the FAFSA for the coming school year, she receives a notice from the financial aid office stating that she is eligible for a full Stafford loan for $3,500. Marie decides to accept the loan, and the school disburses the first payment to her account for her fall charges.

In similar fashion, Marie accepts a $5,500 Stafford for her junior year. However, she receives an inheritance of several thousand dollars during the summer between her junior and senior years. To reduce her debt, she contacts Romulan's financial aid office and asks that the loan for her senior year be reduced to $2,000.

In this example, Marie has used one promissory note to borrow four loans for a total of $13,625. She accepts a $50,000/year job at the Rickenbacker Propulsion Laboratory and, after her grace period expires, begins repaying her loan in monthly installments of $167.

BUDGETING WHILE YOU'RE IN SCHOOL

College cost lookup:
http://nces.ed.gov/ipeds/cool/Search.asp

If college is your first experience living on your own, it may take you awhile to become familiar with budgeting for your expenses. Understanding how to live within a budget will help you while you are in school and might also help you more successfully manage your money after you leave school.

What is budgeting?

Budgeting is a way to make sure that you're not spending money this week that you may need for necessities later in the month. Start by listing your expected monthly expenses (such as rent, groceries, gas, electric, and phone bills) and the resources you expect to have available (such as your earnings) to pay those expenses.

What is your cost of attending school?

When your school determines your federal financial aid award, it uses a standard budget to estimate the expenses you will incur while attending school, including living expenses. The school's standard budget is called the "cost of attendance" or "cost of education," and it is likely to be a fairly good estimate of your expenses. However, you might spend more or less than the school estimates on variable expenses. Tuition and fees are fixed costs that are likely to remain the same for the entire school year, but some expenses, such as books and supplies, room and board, transportation, and personal expenses, may vary.

You can usually find a college's estimated cost of attendance by reviewing its catalog or looking on its Web site. College costs are also listed on the U.S. Department of Education's Web site at: **http://nces.ed.gov/ipeds/cool/Search.asp**

How can I reduce the amount I need to borrow?

If you can reduce your expenses, you might not need to borrow as much as the school has awarded you. It's a wise idea to borrow only what you need. If you borrow less than the school awards you, you'll have lower monthly payments when you repay the loan. This will leave you more money for transportation, housing, and other kinds of expenses associated with starting a career.

Another way to reduce what you need to borrow is to identify non-loan sources of financial assistance. You might have relatives and friends who are willing and able to help you. An extra $10 or $15 a week from a family member or friend can add up over a period of months or years. Many organizations award special scholarships—there are several free Web sites that can help you find out if you might qualify for one of these scholoarships.

A sure way to help pay for college and avoid excess borrowing is to work part-time. Working while going to school is not for everyone—but studies show that students who work while going to school do better in their courses than students who don't work. Working can also provide you with valuable experience and skills needed for a career.

Using the budget worksheet

The worksheet on the next page will help you plan ahead for school costs and living expenses. After establishing a budget, you may want to monitor your actual expenditures for a while to make sure your budget is accurate.

To determine your expenses, you will need to begin by compiling basic financial information. Your checkbook, credit card statements, school bills, and other monthly bills are a good place to start.

To estimate your total available income for the year, you will need to consider all of your resources. Include family assistance, grants and scholarships, savings, earnings, loans, and any other income. If you work during summer vacation, you should include savings from those earnings as a part of your resources for the next year. Your financial aid award letter, pay stubs, and bank account statements will help you calculate your available resources.

Determine the balance

The difference between your available resources and your expenses is your balance. If your balance is a negative dollar amount--in other words, your resources are less than your expenses--then try to find additional financial resources and take another look at your expenses to see if you can reduce them. For instance, it might be less expensive to live at home with your parents than to move into campus housing. If you live off campus, it will be less expensive to share housing with roommates than live alone. Cooking in can be inexpensive compared to eating meals out.

If your total resources are greater than your total expenses--in other words, the balance is a positive dollar amount--then you should see your school's financial aid administrator about the possibility of reducing your loan amount, even if you have already received some of the money. Remember that if you can lower the amount you borrow now, you will have less to repay later.

Estimated Expenses		**Estimated Resources**	
Tuition & Fees		Parents' contribution	
Books		Friends/Relatives	
Supplies		Summer job savings	
Dormitory/rent		AFDC	
Utilities		VA Benefits	
Telephone		Social Security	
		Other assistance	
Board plan			
Groceries		Scholarships	
Eating out		Grants (Pell, etc.)	
Clothes		Student loans	
Laundry		Co-op or work-study	
Household items			
Entertainment (movies, concerts, recordings, etc.)			
Commuting			
Car repair/insurance			
Trips home			
Health insurance			
Prescriptions			
Dependent care			
Emergencies, other			
TOTAL EXPENSES		**TOTAL RESOURCES**	

DEFERMENT, FORBEARANCE, CANCELLATION

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Deferment and forbearance

Under certain circumstances, you can receive a deferment or forbearance on Stafford, PLUS, or Consolidation loan. To get a deferment or a forbearance, you must request one from your lender. Both deferments and forbearances allow you to postpone repaying the principal on your loan. If you have a subsidized loan, the advantage of a deferment is that the interest on the loan is paid by the federal government during the period of deferment.

The most common deferment is the "in-school deferment" for students enrolled at least 1/2-time at an eligible postsecondary school. Once you've graduated or left school, there might be times when you qualify for an unemployment or economic hardship deferment.*

The lender may grant you forbearance for a number of reasons—for instance, if you can't pay because of poor health or because your loan payments are too high relative to your income. Under a forbearance, the lender can temporarily postpone your loan payments or reduce them.

Cancellation (forgiveness & discharge)

Under certain unforeseen circumstances all or part of your loan(s) can be cancelled or discharged. The next page lists all of the circumstances for which a Stafford, PLUS, or Consolidation loan can be cancelled, such as permanent and total disability, the closure of your school, or the failure of your school to pay you a refund.

For Stafford loans only, there are two types of public service that qualify for cancellation (loan forgiveness). If you're a "new" Stafford borrower as of October 1, 1998 and you plan to teach full-time for five consecutive years at an elementary or secondary low-income school, you may qualify to have as much as $5,000 of your Stafford loan(s) discharged.

If you're interested in teaching at a low-income school or interested in the limited cancellation program for child care providers, you can get more information from our Web site at **www.ed.gov/studentaid** (select "Repaying Your Loan").

To apply for one of these cancellation provisions, you will need to contact the holder of your loan and submit an application.

* Note: At one time there were specific deferments for service in the Peace Corps and other public service organizations. Public service volunteers can now qualify for deferment only if their pay is below the minimum threshold, or if they have a relatively high debt.

DEFERMENTS & CANCELLATIONS
FEDERAL STAFFORD, PLUS, AND CONSOLIDATION LOANS

Educational Deferments

In-school. At least half-time at SFA-eligible school, or full-time at a school run by the federal government (such as the military service academies).

Graduate fellowship. Full-time study in an eligible graduate fellowship program.

Rehabilitation training. Engaged in a training program for disabled individuals recognized as such by the Department of Veterans Affairs or an appropriate state agency.

Economic Deferments

Unemployment. Looking for work but can't find a full-time (30 hours a week) job. (Limited to a total of three years.)

Economic hardship. Receiving public assistance, or having a high debt burden or low monthly income based on minimum wage and poverty guidelines. (Limited to a total of three years.)

Deferments for Previous Borrowers

If you have a loan made before July 1, 1993, you may be eligible for more specific deferments—check the promissory note for your loan for these deferments. More information about older deferments is available on our Web site at:

www.ed.gov/student aid

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This is a quick overview of current deferments and cancellations. If you believe you may be eligible for one of these deferments or cancellations, check your promissory note, contact your lender, or visit the "Repaying Your Loan" area of our Web site:

www.ed.gov/studentaid

Loan forgiveness for public service (Stafford only)

Teacher cancellation. For "new borrowers" (first Stafford received after October 7, 1998), up to $5,000 of loan can be cancelled after five consecutive years of full-time teaching at a low-income elementary or secondary school.

Child care providers. Limited demonstration program (funded at $1 million) for borrowers who have served for two years in a child care facility in a low-income community.

Closed school & consumer cancellations

Closed school. If the school closed while the student was still enrolled.

No ability to benefit. If school certified the loan even though the borrower didn't have a GED or high school diploma, and didn't pass an "ability to benefit" test, as required by regulation.

Forgery. If someone forged the borrower's signature on the loan application, promissory note, or authorization for discharge.

Unpaid Refund. If the school failed to pay a required tuition refund to the student.

Bankruptcy, Death, and Disability

Bankruptcy. Student loans are rarely discharged in bankruptcy, and only if a bankruptcy court has determined that repayment would cause an undue hardship to the borrower.

Total and permanent disability. If the borrower of a Stafford or PLUS loan (or the student for whom a PLUS loan was borrowed) becomes totally and permanently disabled.

Death. Loan will be cancelled—repayment will not be sought fromthe estate or the endorser of the loan.

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HOW YOUR LOAN WILL BE PAID

Whether you're getting a Stafford Loan or your parents are getting a PLUS loan, the loan funds will be paid to you through your school.

School charges are paid first ...

Your loan money will first be used to pay for your tuition, fees, and any room and board charges at your school. Usually this payment will be credited to your account. If loan money remains, you'll receive the funds by check or in cash unless you give the school written permission to hold the funds until later in the enrollment period.

Loan fees ...

The loan funds that you receive will be slightly less than the amount that you are borrowing. For instance, if you've been awarded a $2,000 loan to be paid in two installments at the beginning of your fall and spring terms, the actual amount credited to your account for fall semester may only be $960 and not $1,000.

That's because you will be charged a fee of up to 4% of the loan, deducted proportionately from each disbursement of your loan. Part of this fee is an insurance fee that is used to pay off loan defaults, and the rest of the fee reduces the cost of the loan to the government.

How you'll be notified ...

Your school must notify you in writing within 30 days before or after it credits your account with your Stafford Loan funds. You may cancel all or a portion of your loan if you tell your school within 14 days after the date that your school sends you this notice, or by the first day of the payment period, whichever is later. (A "payment period" is the semester or quarter at a term school, or--in most cases--1/2 an academic year at a nonterm school.) If you receive Stafford Loan funds directly by check, you may refuse the funds by returning the check. If you cancel all or part of your loan, ask for a revised tuition account statement. Keep this with your other loan records.

Payment example for a semester program

Sheila is a junior at Sagebrush University, where her fall tuition will be $3,500 and her room and board $2,000. Her aid award (for the whole year) is a $3,000 Pell Grant and the full $5,500 Stafford Loan.

Sagebrush applies the first disbursement of the Pell Grant ($1,500) to the tuition charge. When Sagebrush receives the loan funds for that semester from the bank ($2,668 after the loan fees are deducted), it credits the loan to the student's account for the remainder of the tuition charge ($2000) and $668 of the room and board charge. Julie and her family will be responsible for paying the remainder of the room and board charge.

Payment example for a nonterm program

Steve is enrolling in a 1-year program at the Springfield Computer Academy, where his tuition will be $4,500, charged at the beginning of the course, and his estimated off-campus living costs are $4,000. His aid award (for the whole year) is a $3,000 Pell Grant and the full $2,625 Stafford Loan.

Springfield applies the first disbursement of the Pell Grant ($1,500) and the Stafford Loan ($1,260 after the loan fees are deducted) to the tuition charge. When Steve completes the coursework for the first half of the program, Springfield uses the second disbursements of the Pell Grant and the Stafford to pay the remainder of the tuition charge ($1,740). This leaves $1,020 in aid, which Springfield pays to Steve by check for his living expenses.

REPAY YOUR LOAN— DON'T DEFAULT!

Unfortunately, some students don't repay their student loans and the loans go into default. Default can have very serious consequences for the borrower. The cost to the U.S. Department of Education of paying off default claims also reduces the amount of aid that can be given to other students.

The SFA loan programs are here to help you accomplish your goals. But it's up to you to make an informed decision about which school to attend, what occupation to prepare for, and how much to borrow. You will have to repay your loans even if you withdraw without getting your degree or certificate or are unable to find employment in your chosen occupation.

Staying in touch

Now that you're a loan borrower, you have to take care of your student loans in the same way that you would a car loan or a home mortgage. Some of the basics are:

▲ Keep your promissory note and all of your other loan paperwork.

▲ Stay in touch with your lender—be sure the lender has your current address and contact information at all times.

▲ Keep good records of your communications with your lender.

▲ Let your lender know if you're having trouble repaying.

It's not easy to go into default. The lender and guaranty agency will send you several notices if you're delinquent, encouraging you to resume payment. However, if you haven't responded satisfactorily after 270 days of delinquency, your lender will place your loan in default and notify the guarantee agency. Interest continues to accumulate on your loan during this time.

The consequences of default

Once the guaranty agency notifies a credit bureau of the default, the credit bureau may continue to report the default information for up to seven years from the date the loan is first reported as a default (or the date the guaranty agency pays the default claim).

▲ The guaranty agency will attempt to collect the loan, contacting you through a series of letters and phone calls to make repayment arrangements for the defaulted loan. The repayment amount may include a mandatory assessment of collection costs. If you do not make payment arrangements, the guaranty agency will take additional steps to collect your debt, including garnishing up to 10 percent of your disposable pay, withholding your federal and/or state income tax refund and other federal payments, and filing suit against you.

▲ There is no statute of limitations on wage garnishment, offset action against your income tax refund, or lawsuits to recover defaulted Department of Education loans, regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts.

▲ You won't be able to receive any federal financial aid until you've paid off the loan or made satisfactory payment arrangements with the holder of the loan.

REVIEW & NOTES

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Borrower's Rights and Responsibilities ...

Your school or lender must provide you with a statement of your "Borrower's Rights and Responsibilities" before you get a Stafford Loan. Read this statement carefully and keep it with your promissory note and other important loan papers.

We won't repeat all the information on the "Borrower's Rights and Responsibilities" statement. Instead, we're highlighting several of the key points in this statement that you won't find in other materials. If you'd like to make this more interactive, write down the number of the paragraph in the "Borrower's Rights and Responsibilities" that discusses the points made below.

▲ You have the right to cancel the loan at any time before the loan is paid to you or to your school charges. You can also cancel the loan by paying back any loan funds within 120 days after you received them.

Discussed in paragraph [ ]

▲ After you stop going to school at least half-time, you'll have a grace period of 6 months before you have to start paying your loan.

Discussed in paragraph [ ]

▲ You can choose between four repayment plans: standard (5-10 year repayment), extended (up to 25 years), graduated, and income contingent/income sensitive.

Discussed in paragraph [ ]

▲ It's very important to stay in touch with your lender—you must tell your lender when you drop below half time or withdraw, change your permanent address or any of your contact information.

Discussed in paragraph [ ]

▲ In some cases you can ask the lender to postpone your loan payments, for instance, if you're enrolled half time at an eligible school or meet the criteria for economic hardship. You won't be charged any interest on your subsidized loans, but you will have to pay the interest on your unsubsidized loans.

Discussed in paragraph [ ]

Some review questions ...

You may not know the answers to all of these questions off the top of your head, so use the Rights and Responsibilities statement to find the answers that fit your situation.

What's the difference between a subsidized and an unsubsidized loan?

Does extending your repayment period lower the total amount of interest you will pay on the loan?

Does extending your repayment period lower your monthly payments?

When will you begin repaying your loan?

How long is your grace period?

Save this information ...

What's the current interest rate on a Stafford Loan? (Go to the SFA Students Web page at **www.ed.gov/studentaid** and look under "Repaying your student loan"

________%

Total loan amounts that you expect to borrow while at school. (If you're not sure, your school counselor can tell you the average loan indebtedness of students graduating from your school.)

$________

Expected monthly payments after you graduate, based on the loan amounts you borrowed while at school.

$________

Your expected starting salary (monthly) in the career field that you've chosen.

$________

What's the telephone number for the bank or servicer that made your loan? (If you haven't already gotten paperwork from the lender with a contact number, ask your counselor for it.)

(____)________

Review the list of deferment and cancellation provisions, and write down any that you think you might qualify for later on:

______________________________ ______________________________ ______________________________

Other information to find out ...

To reduce the amount that you need to borrow, ask your counselor what scholarships and grants are available for students in your program of study, whether from private sources, your state agency, or from your school. You may also want to use a Web scholarship search, which is usually free.

Ask for a copy of your school's refund policy and review it carefully. If you withdraw while enrolled in courses, how much of your paid tuition and other charges will be returned to you or credited to your Stafford Loan? If you have questions, don't be afraid to ask.

Remember ...

To hold on to your promissory note, Borrower's Rights and Responsibilities Statement, and any other loan paperwork.

Before you graduate, you'll be invited to attend exit counseling, where you'll get more specific information about repaying your loan and how to make repayment easier. If you are going to graduate early or decide to withdraw from school, you must let your financial aid office know, so that they can give you this loan information before you leave.