

Exit Counseling Information

The “exit interview” is usually your last opportunity to reinforce the importance of repaying the loan and alternatives to letting the loan go into default. Some of the same topics that were discussed in Entrance Counseling will be reinforced here. But the emphasis in Exit Counseling shifts from budgeting while in school to budgeting while starting to repay the loan. In addition, the student will need to choose a repayment plan and consider the possibility of consolidation.

The following pages are written for the borrower, and will provide most of the information that is required for exit counseling, including repayment options, deferment and forbearance conditions, and the consequences of default. Additional information that must be provided by your school or by the lender is noted in the sidebar to the right.

Exit counseling can also be provided through the Web. See Volume 8, Chapter 5 of the SFA Handbook for a complete description of exit counseling requirements and when you must give exit counseling.

Exit counseling information not provided in these materials

- ▲ The student must be given an estimate of monthly payment amounts—this can usually be provided by the lender.
- ▲ The student must receive contact information for his/her lender(s).
- ▲ You are required to provide the student with information about the Department’s Student Loan Ombudsman. If your school materials do not include this information, you may use the sample statement on the next page.
- ▲ It may be helpful to advise students on the preparation of correspondence to lender, deferment requests, etc.
- ▲ Update any changes to student’s personal information (name, social security number, etc.) This includes information you may have received through your school’s alumni or placement offices.
- ▲ Collect the student’s driver’s license number, expected permanent address, address of next of kin, and name and address of employer (if known).

SFA's Student Loan Ombudsman

The Ombudsman's office is a resource for borrowers to use when other approaches to resolving student loan problems have failed. Borrowers should first attempt to resolve complaints by contacting the school, company, agency, or office directly involved. If the borrower has made a reasonable effort to resolve the problem through normal processes and has not been successful, he or she should contact the SFA Ombudsman.

Toll-free: 1-877-557-2575
<http://sfahelp.ed.gov>

Office of the Ombudsman
U.S. Dept. of Education
Union Center Plaza, 4th Floor
830 1st Street, N.E.
Washington, DC 20202-5144

(202) 401-4498
fax: (202) 260-1297

Best Practices in Default Prevention

Counseling tips from National Default Prevention Day

- *Allow students to keep their school e:mail addresses for at least two years after leaving so that you can stay in contact with them..*
- *Require that a student complete exit counseling before graduating.*
- *Create a liaison with the local U.S. employment service office and the private industry council (under the Workforce Investment Act) to assist students with employment.*
- *Keep alumni abreast of student loan information through the alumni newsletter.*



→ starting the clock

The repayment period on an **unsubsidized** Stafford loan starts when you've received the last loan for that school year, even though you can postpone your loan payments until you leave school. (You may wish to pay your interest as it accrues—see "Capitalization" below.) The repayment period on a subsidized Stafford Loan doesn't begin until after you leave school.

→ grace periods

Stafford loans also have a grace period—you don't have to make any payments for the first 6 months after you graduate, withdraw, or drop below 1/2 time enrollment. If you have a **subsidized** Stafford Loan you won't be charged interest while you're in school or during the grace period.

→ repayment plans

You can choose a standard, graduated, or income-sensitive repayment plan. If you have more than \$30,000 in loans, you can choose an extended repayment plan. Once you've chosen a plan, you have to stick with it for at least a year before switching to another plan.

→ deferments

are periods when you don't have to make loan payments. The most common deferments are for students attending college (enrolled at least half-time), unemployment, and economic hardship. If you have a subsidized Stafford loan, the government pays the interest while the loan is in deferment. If you have an unsubsidized loan, you can either pay the interest as it continues to accrue on the loan, or postpone your interest payments during the deferment (see "Capitalization").

→ forbearance

is similar to deferment, but often is at the lender's option. Also, you will always have to pay the interest that accumulates, even on a subsidized loan.

→ capitalization

You can usually opt not to pay the interest that accumulates while your loan is in deferment or forbearance. The lender will "capitalize" the interest and add it to your loan when you start making payments again. However, capitalization increases the total amount that you will repay.

→ default

happens when you're 270 days behind on your loan payments. Don't let your loans just go into default—make sure your lender always has your current address, and contact the lender if you're having trouble making payments. Your lender may be able to grant you a forbearance or make other arrangements to keep you from defaulting. If you default, you will be reported to national credit bureaus, your wages can be garnished, your income tax refund can be withheld, and you won't be able to get student aid to go back to school.



STARTING THE CLOCK: GRADUATION OR WITHDRAWAL

The date that you graduate or drop below half-time attendance is very important, because your grace period starts at that time. You're responsible for notifying your lender of the date when you're no longer enrolled at least half time at a participating school. If you don't resume half-time study in an eligible postsecondary school, you'll begin repaying your loans when the grace period ends.

If you're withdrawing from school, the withdrawal date is the date that you tell the school that you've withdrawn or the actual date you withdrew, whichever is later. When you withdraw, you may receive a refund from the school, depending on its policy. You also may be required to return some of your student aid.

You need not report to the lender when you stop attending in the summer. However, you may need to take additional time off from school to attend to personal matters, or for other reasons. Your school can grant you a leave of absence of up to 60 days without considering you to have withdrawn for financial aid purposes.

If you withdraw without notifying your school ...

Your school must determine your withdrawal date no later than 30 days after the end of your period of enrollment, your academic year, or your educational program, whichever is earliest. If you don't return from a summer break, your school has to determine your withdrawal date no later than 30 days after the first day of the next scheduled term.

If you don't withdraw officially, your withdrawal date will be the last date that your class attendance was recorded by your school. If you don't return from an approved leave of absence, the withdrawal date is your last date of class attendance. This date is used regardless of whether you withdrew officially (by notifying your school) or unofficially (by discontinuing attendance without notifying the school). For correspondence study, the withdrawal date is the date of the last lesson that you submitted.

Your grace period

When you leave school, you won't have to begin repaying your loan right away. Stafford Loans allow a six-month "grace period" that starts when you leave school or drop below half-time enrollment. (Older Stafford Loans may have a 9- to 12-month grace period—check your promissory note.) You may request a shorter grace period if you wish. If you have unsubsidized loans, you can reduce the amount of interest that accrues on the loan by requesting a shorter grace period and beginning repayment earlier.

Grace periods are day-specific; that is, an initial grace period begins on the day immediately following the day that you stop attending school at least half time and ends on the day before the repayment period begins. The initial grace period isn't "used up" during shorter periods of nonenrollment. For instance, if you miss a semester (4 months), but resume your studies at least half-time, you'll still be eligible for the full 6-month grace period when you graduate.

Prepaying your loan

Most Stafford loans must be repaid within 5 to 10 years, but periods of authorized deferment or forbearance are not counted in the repayment period. You may prepay all or part of a Stafford Loan at any time without penalty. If you make a scheduled payment that exceeds the amount due, the lender will treat the excess as a prepayment.

A prepayment is applied first to any accrued charges or collection costs, then to any outstanding interest, and then to outstanding principal. If the amount you prepaid **equals or exceeds** your monthly repayment amount the lender will advance the next payment due date (unless you request otherwise) and notify you of the revised due date. Even if you prepay, interest still accrues on the unpaid balance.



CHOOSING A REPAYMENT PLAN

If you're a Stafford Loan borrower, the lender will send you a repayment disclosure statement before the first payment is due—the law requires that the statement be sent not less than 30 or more than 240 days before the first payment is due. The disclosure statement will include contact information for the lender, a repayment schedule, and the interest rate and the estimated balance that will be owed on your loan(s) when repayment begins. (The lender must notify you within 120 days after you leave school of the date you will begin repayment.)

Your lender must give you the choice of standard, graduated, or income-sensitive repayment plans not earlier than six months before the date of the first scheduled loan payment. If you don't choose a plan within 45 days of the lender's offer, the lender will use the standard repayment plan. Even if you don't choose a particular plan, you may reach an agreement with your lender to repay all of your loans under one repayment schedule. You may change your repayment plan annually.

Comparing repayment plans

There are several key differences between these repayment plans. But the most important differences are your monthly payment and the total amount of interest that you'll be repaying.

The chart below illustrates some of these differences. Under the standard repayment plan, you'll usually repay your loan in ten years. The graduated repayment plan lets you start with smaller payments. However, the total interest that you'll pay on the loan will be greater. Under income-sensitive repayment, your payments will vary according to your annual income.

▲ Under the **standard repayment plan** you'll usually repay your loan within ten years. You'll be repaying the same amount of the loan each month, though your monthly payment may vary slightly from year-to-year because of interest rate changes.

▲ If you're a new Stafford borrower (as of October 7, 1998) who has more than \$30,000 in Stafford Loans, you can choose the **extended repayment plan**. Since you make payments over a longer period (not to exceed 25 years) your monthly payments will be lower. However, the total amount of interest you repay will be greater.

▲ If you choose the **graduated plan**, you'll start with a lower monthly payment. Over time, your monthly payments will increase. While this plan may help you initially, when your starting salary is lower, keep in mind that you'll pay more total interest over the life of the loan than you would with the standard plan.

▲ Under an **income-sensitive repayment schedule**, your payments are adjusted annually, based on your expected total monthly gross income. If your salary increases regularly, your monthly payments will increase, as they would under the graduated plan. However, if your salary is reduced, your payments will also be reduced.

On-line calculators
www.ed.gov/DirectLoan/calc.html
www.mapping-your-future.org

Total Debt	Standard Fixed & equal payments.		Graduated Beginning payments; payments will increase.		Income Sensitive Based on income=\$25,000 beginning payments:	
	Per Month	Total Payment	Per Month	Total Payment	Per Month	Total Payment
\$2,500	\$50	\$2,958	\$30	\$3,695	\$83	\$2,747
\$5,000	\$58	\$6,942	\$30	\$7,485	\$83	\$6,059
\$7,500	\$87	\$10,413	\$43	\$11,262	\$83	\$10,723
\$10,000	\$116	\$13,884	\$58	\$15,016	\$83	\$16,056
\$15,000	\$174	\$20,825	\$87	\$22,523	\$103	\$25,824

Note: The monthly payment must equal at least the interest the accrues between scheduled payments.

Example

Jeannette Z. recently graduated from Mineral College, and is about to enter repayment on a \$15,000 Stafford loan borrowed on a Master Promissory Note over four years of attendance. The interest rate is currently 6.29%. Under the Standard repayment plan (10-year repayment), Jeannette's payments for this year would be \$174 a month, and will only change if the interest rate changes. Over this repayment period, she would pay \$5,825 in interest.

Jeannette is concerned that the monthly payments are too high for her starting salary. Since she has borrowed less than \$30,000, she is not eligible for the extended repayment plan. However, if she chooses a graduated repayment plan, her monthly payments would begin at \$87. Jeannette is fairly confident that her salary will be increasing in the next few years, so she'll be able to handle the higher payments later on. While her estimated interest payments would be higher (\$7,523), she decides that it's worth that extra interest cost to make her loan more affordable when she's still beginning her career.

More details on repayment plans

- ▲ Your monthly payments under the **standard repayment plan** may change from year-to-year because of changes to the Stafford interest rate. Your minimum repayment amount is a total \$600 a year on all of your Stafford loans, but are usually higher because the length of the repayment period is limited to 10 years. If the minimum payment amounts are enough to pay off your loan earlier, your lender may set a repayment period of less than 5 years.
- ▲ The **extended repayment plan** is available to new borrowers after October 7, 1998 who accumulate outstanding loans totaling more than \$30,000. The extended repayment plan has a fixed annual amount (at least \$600 a year) or a graduated repayment amount. The extended repayment period is limited to 25 years.
- ▲ If you choose a **graduated repayment plan**, no single payment can be scheduled to be more than three times greater than any other scheduled payment and the repayment period is limited to 10 years.
- ▲ Under an **income-sensitive repayment schedule**, your payments are adjusted annually, based on your expected total monthly gross income. Your lender will usually ask you for income information within 90 days before your first payment is due. If a lender receives late notification that you've dropped below half-time enrollment status at a school, the lender may request the income information earlier.

The scheduled income-sensitive payments must cover at least the monthly interest charges. Your lender may round up the loan payment to ensure that the payment is a multiple of \$5. If monthly payments based on your income would be too low to repay a loan within the maximum 10-year repayment period, the lender will ask you to submit documentation showing your most recent total monthly gross income from employment and from other sources. A lender must grant you up to 5 years of forbearance if the monthly payments under the income-sensitive plan would be too small to pay off the loan within the maximum repayment period. If you choose the income-sensitive plan but then don't provide the necessary documentation, the lender may use the standard repayment plan instead.



CAPITALIZATION OF INTEREST

If interest is accumulating on your loan during a period when you're not making loan payments, the lender will usually "capitalize" the interest, which means the interest is added to the loan principal. For instance, if you choose not to pay the interest on an unsubsidized Stafford Loan while you're in school, forbearance, deferment, or a grace period, the interest will usually be capitalized. Since this added amount also begins accruing interest, capitalization usually increases the overall amount to be repaid. Interest may be capitalized no more frequently than quarterly and any time repayment begins or resumes.

If you've agreed to pay interest during a grace, deferment, or forbearance period but are delinquent in making the payments, your lender may capitalize the delinquent interest and all interest accruing for the remainder of the period of deferment or forbearance. The lender must notify you before taking this action.

Capitalization of interest doesn't occur as often with subsidized Stafford Loans, because the interest is paid by the federal government while a borrower is in school, deferment, or the grace period. However, there your interest payments may be postponed and capitalized while you're in forbearance, for instance, while your request for deferment or cancellation is being reviewed.

Repayment Estimators on the Web
<http://mapping-your-future.org/features>

Capitalization example

Martina is working and making monthly payments on her unsubsidized Stafford loans that she borrowed for undergraduate study. She decides to enroll in a 9-month teacher certification program. Her lender agrees to defer the repayment of principal and interest on the loan for 9 months. Her unpaid balance at the beginning of the deferment period is \$8,000. The interest rate for her Stafford Loan is 7% during her period of study, so approximately \$420 of interest will accrue on the balance of the loan. If the lender adds this interest to the balance of the loan, then Martina will owe \$8,420 on the loan at the end of the deferment period. If Martina had continued to make payments on the interest during this period, her balance would have remained at \$8,000.

While it may appear that Martina will end up repaying the same amount whether she defers the interest payments or not, note that some additional interest will accrue because the capitalization increases the loan balance. For instance, if the interest rate continues at 7% for the next year, Martina's monthly payments might be approximately \$114 (rather than \$109 if she had not capitalized). The total interest that Martina pays over the life of the loan is impossible to predict, because the Stafford interest rates usually change each year. But as an example, if the interest rate remained at 7% for the life of the loan, Martina would pay an additional \$130 over the life of the loan if the interest is capitalized during the period of deferment. (All figures are approximate.) If Martina would prefer not to have her interest capitalized, she may tell the lender that she wants to pay the interest as it accrues each month while she's in school and in the 6-month grace period after she leaves school.

Please keep in mind that the cost of capitalization increases with the length of the deferment period. If Martina had chosen to enroll in a two-year master's program, approximately \$1,120 will accrue over 24 months, and the cost of capitalizing the interest for that period would be \$346 (based on the same assumptions as the previous example).



LIVING ON A BUDGET

It may take a bit of an adjustment to get used to living on your own. There'll be some extra expenses at the beginning, of course, such as the deposit on an apartment, some new furnishings, and perhaps a set of dress clothes for your new job. If your parents can't help out, you'll have to plan on paying those costs.

To avoid problems repaying your student loans, you should have a good idea of how much it costs to live on your own. The amount you can afford may affect your decision on where you want to live when you start work. A frequently-used guideline for housing costs is that you should expect to pay about 25-30% of your salary for your rent or mortgage, and somewhere around 2 to 10% for utilities.

It may be hard to estimate your grocery expenses if you haven't lived on your own before. If you can't get a good idea of these costs from your check book or credit card statement, you may want to ask friends or relatives how much they're spending.

There are many expenses that tend to get overlooked in a budget, in particularly expenses that are not monthly—such as car insurance bills. Be aware of these expenses and be sure to include them in your budget.

There are several very helpful on-line calculators that you can use to estimate your income and expenses. You can also use the worksheet below as a way to list your expenses and compare them to your salary. The worksheet can be used for yearly or monthly estimates, but it's probably easiest to use monthly amounts. (For infrequent expenses, estimate a monthly value—for instance, if your car insurance is \$300 for 6 months, then it's costing \$50 a month.) Note that we're using a rough estimate that 30% of your income will be withheld for state and federal taxes, etc. Therefore, if you don't know the exact withholding figure yet, you can multiply your salary by 70% to estimate your take-home pay.

Budget Calculators on the Web
www.mapping-your-future.org

Estimated Expenses		Estimated Income	
Rent or mortgage		Anticipated Salary	
Groceries		X .70	
Eating out		Take-Home Pay	
Utilities (gas, water, elec.)		+ Other income	
Telephone		+ Gifts, etc.	
Clothes			
Laundry			
Household item			
Commuting costs			
Car repair/insurance			
Entertainment			
Cable / internet service			
Vacation			
Health insurance			
Prescriptions			
Dependent care			
Unexpected expenses			
TOTAL EXPENSES		TOTAL INCOME	



REPAY YOUR LOAN— DON'T DEFAULT!

Federal Student Loan Fact Sheet
Stafford • PLUS • Consolidation Loans

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

Going into default on a student loan will harm your credit rating—it may mean that you can't get a loan for a new car or to buy a home.

keep all of your loan paperwork

Keep your promissory note, repayment schedule, cancelled checks, just the same as if you were borrowing to buy a car or a house.

stay in touch with your lender

One of the most common reasons a loan becomes delinquent or defaults is because a borrower has failed to update his/her address or name with the holder of the loan. If your address and phone information is no longer accurate, the servicer or lender will use skip-tracing to try and make contact with you.

If you will be required to send payments to a new address because of the sale or transfer of your loan, the present and former holders of the loan (either jointly or separately) must notify you of the change within 45 days of the sale or transfer. The notification should spell out your obligations to the new loan holder.

manage your money

If you're having trouble repaying your loans, you should carefully review your options to find the best solution.

▲ Reduce your expenses. Make a list of your monthly expenses, using checkbook and credit card statements. Don't forget to include enough money to cover expenses that don't occur every month. And remember to always leave a little room for those unexpected expenses. Now look at your list and see if there are ways you can economize until your financial situation improves.

▲ Change the type of repayment plan on your loan. If you expect your income to increase significantly in the next few years, then you might consider changing to an extended or graduated repayment plan. The disadvantage with these plans is that you'll end up paying more interest over the life of the loan, but it is a way to reduce your current monthly payment.

▲ Consider consolidating your loans. Aside from the convenience of making one loan payment instead of several, consolidation may give you a longer repayment period, which will reduce the interest on your loan. Again, however, a longer repayment period means you'll end up paying more interest over the life of the loan.

▲ Review your deferment options, including in-school and unemployment deferments. If you have a job and aren't in school, you may still qualify for an economic hardship deferment. The particular deferments that apply to your loan are listed in the promissory note.

▲ Always, always contact your lender if you find it difficult or impossible to make your monthly payments. The lender may be able to offer forbearance on the loan (postponing or reducing your payments) or other options.

How does a delinquent loan go into default?

Your loan becomes delinquent when you don't make a scheduled payment on time. To prevent defaults, the lender or servicer will attempt to contact you by phone and mail.

If it's authorized in your promissory note, your lender can assess a late charge for payments that are made more than 15 days after the scheduled payment date. This charge may not exceed six cents for each dollar of each late installment. The lender may also charge you for any collection costs on overdue payments, including attorney's fees, court

costs, telegrams, and the cost of processing checks returned for insufficient funds. However, these charges may not include the cost of making personal contacts (for example, local and long-distance telephone calls).

If you're repaying in monthly installments, your loan will go into default if it becomes 270 days delinquent. For a loan repayable in less frequent installments, default occurs when the loan becomes 330 days delinquent. Keep in mind that a late charge can be imposed on a delinquent loan even if it doesn't go into default.

What happens when a loan goes into default?

If your loan defaults, your lender will usually sell it back to the state or other agency that guaranteed the loan. The guarantor will send you a written notice before reporting the default to a national credit bureau or assessing collection costs. The notice will include information about making a repayment agreement and give you a chance to ask for review of the status of the loan.

report to credit bureaus

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). If you enter repayment after default and again allow the loan to default, the credit bureau may continue to report the default information for up to seven years from the date the loan enters default the second time.

collection costs; wage garnishment

Once the guaranty agency pays the default claim, it owns the loan and will continue the collection efforts begun by the lender, contacting you through a series of letters and phone calls to make repayment arrangements. The repayment amount will include a mandatory assessment of collection costs. The guaranty agency can file suit against you to recover the loan, ask your employer to withhold up to 10 percent of your disposable pay, and request that your federal and/or state income tax refund and other federal payments be withheld to pay off your debt. There is no statute of limitations on wage garnishment, tax refund offsets, or lawsuits to recover defaulted loans from the U.S. Department of Education, regardless of any federal or state statutes of limitation that might otherwise have applied to such collection efforts.

Once you go into default, you lose your eligibility for aid from *any* of the SFA programs, including Pell Grants. You also lose eligibility for any type of deferment on the loan, such as a deferment when you return to school or a deferment for economic hardship. (A lender or guarantor may still grant forbearance on a delinquent or defaulted loan if you can't make payments, but you'll have to pay the interest on a subsidized loan.)

loss of student aid; loss of deferment rights

assignment to the ED Debt Collection Service

The guarantor may assign your loan to the U.S. Department of Education for collection. The Department's Debt Collection Service will undertake the same collection efforts as described above for the guarantor.

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/studentaid



Federal Student Loan Fact Sheet

Stafford • PLUS • Consolidation Loans

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 from the estate or the endorser of the loan.