

Avoiding Student Loan Default: Tips & Advice

Loan default occurs when you fail to make required payments on your federal student loans for 360 days and 120 days on private loans. Defaulting on your loan is a violation of your loan agreement and your loan provider has the right to request immediate payment of the entire loan. Defaulting on a student loan can have a very negative impact on your finances. Smart planning can help keep your financial future secure.

What are the short- and long-term effects of defaulting?

Short-Term

- Garnished wages: Up to 15% of your loan balances may be taken out of your paycheck to pay your debt.

Long-Term

- Damaged credit rating: Your default will remain on your credit report for up to seven years and will negatively impact your chances of being approved for a credit card, car or home loan. It can even affect your ability to rent an apartment or get a job!
- Lost eligibility for further federal aid: Defaulting on your current loan may jeopardize your eligibility to receive future aid.

Note: Collection agencies are involved on all types of default. You may get sent to collections, have to pay additional interest and fees (late, and attorney) and collection costs (up to 20% of the balance or 18.5% added if loans are combined or consolidated).

How do I avoid default?

Managing your student loan payments successfully will help you avoid financial problems and provide you with peace of mind regarding your financial future. Consider making student loan payments while in school to reduce the amount you have to pay back after graduation. If that's not possible, follow these tips:

- Auto-pay your loans or pay before the due date.
- Alert your lender if you are having trouble making payments or know a payment will be late.
- Keep your loan documents in one place so you won't forget your due dates.
- Make copies of canceled checks and any forms you sign.
- Explore repayment options to find the right one for you.
- Borrow the amount you need & can afford to pay back.
- Try to avoid using credit cards if possible. If you use credit cards, pay the entire balance each month. Maintain a budget that is within your monthly income.

If you're having trouble making payments, don't wait to notify your lender! You may have to pay the entire loan amount (principal and interest) if you don't make your payments.

Repayment options

Another way to avoid default is to explore repayment options. Repayment plans are designed to help alleviate some of the stress of making huge monthly payments. To learn about your options, call your lender or loan holder. Don't wait until you are seriously behind in your payments.

Many of the options or plans available to you may include:

- Standard Repayment Plan: A set amount of money is paid every month for a fixed period of time up to 10 years.
- Graduated Repayment Plan: Your monthly payments start small and gradually increase every two years until the loan is paid off. Repayment period may vary between 12 and 30 years
- Extended Repayment Plan: A set amount of money is paid with an extended repayment period between 12 to 30 years.
- Income-Based Plan: Payments are based on a percentage of the borrower's discretionary income and not the amount owed. Monthly payments are adjusted each year as the borrower's income changes. The remaining debt is forgiven after 25 years in repayment.
- Loan Consolidation: Combines all of your loans into one monthly payment. The new loan will have new terms, and may have an extended repayment period of up to 30 years. Keep in mind that a longer loan term means that you will pay more in interest over the life of the loan.

Visit <http://www.finaid.org/loans/repayment.phtml> for more on loan repayment plans.

I am currently in default, what should do?

To get out of default, you should try to make arrangements with your loan holder. You can work out a loan rehabilitation agreement with the lender that consists of a reasonable and affordable payment plan. After making 9 out of 10 consecutive full voluntary on-time monthly payments, your loan will be rehabilitated and the default status will be removed from your credit history. This is a one-time opportunity to clear the default for federal loans.

Community College Transfer Guide

Articulation Agreements and Partnerships

Before beginning the transfer process, find out if your community college or two-year school has an articulation agreement or partnership with a four-year college or university. These agreements are designed to ensure a smooth transfer of the coursework you complete at your two-year school and give you the most credit towards your degree plan at your four-year school. Your school's articulation agreements may influence which school you choose to transfer to. Also, ask the admissions office at either school if your associate's degree (if completed) will be counted for the general education requirements at the four-year college. Also, find out if you will receive credit for any AP coursework you took as a high school student.

Articulation agreements often have geographic restrictions, so make sure you know the policies of the four-year school you will be applying to. The American Association for Collegiate Registrars and Admissions Officers (AACRAO) provides more information on specific state's articulation policies: <http://www.aacrao.org/>

Securing Financial Aid

Your first step in securing financial aid for your four-year school is to complete the Free Application for Federal Student Aid (FAFSA). Include the institutional code for the school you are interested in applying for so they can receive a copy of your Student Aid Report (SAR) and put together a financial aid package for you. Next, search for scholarships at www.fastweb.com. There are many financial aid awards specifically for students looking to transition from a two-year college. Be sure to ask the financial aid office at your prospective four-year school if they offer scholarships and grants for transfer students, and what you need to do to apply for them. Your application for admission as a transfer student may also serve as your application for these awards. If you must borrow to cover the complete cost of attending a four-year school, start with government loans which have the lowest interest rates. Dependent undergrads can borrow up to \$7,500 in their junior or senior year. Independent students (visit <http://www.finaid.org/calculators/dependency.phtml> to learn more about independent status) can borrow an additional unsubsidized \$5,000 junior year (on top of the \$7,500 dependent students receive).

fastweb! Fact:

The average community college tuition rate is 40% of the average tuition rate at four-year public colleges and 10% of the average tuition rate at four-year private colleges.

Source: www.finaid.org/otheraid/partnerships.phtml

Making a Successful Transition

You decided to save thousands of dollars a year and enrolled in a two-year college to complete your general education requirements. Smart move! Now, you're ready to move on to a four-year college or university and finish your bachelors degree. If part of your transfer involves moving to a college town, here are some helpful tips to ease your transition into, and make the most of, your new campus life:

Take a campus resources tour

If your new school offers a transfer student orientation, make sure to attend! Find where all the libraries are located, the career center, the financial aid office, the campus bookstore, campus police, the student union, and other resource locations. Knowing your way around campus will help reduce stress and prevent a feeling of being "lost" that new students sometimes feel.

Join a club or organization

One way to meet people quickly is to join an extracurricular group. Participate in campus activities, such as intramural sports. Many student organizations also have websites that are linked from the school's home page. Take time this summer to research the kinds of activities available on campus, and make sure to attend their introductory meetings in the fall.

Manage your money wisely

You might be surprised as to how quickly the money you saved during your first two years disappears. Keep to a budget and track where every penny is going. Always keep rent, utilities, groceries and books at the top of the list and keep nights out to a minimum. Also, beware of credit card offers! If you must open a card, shop around for the best interest rate first, and choose one with no annual fee.

Stay healthy

Unfortunately, the "Freshman Fifteen" isn't just for freshmen. You will find it easy to order a pizza during a late night of studying, and you might have to skip a workout to finish a term paper. But remember to make time for yourself. Following a healthy diet will ensure you will have the attention span to make it through your lectures. Exercising regularly can also help you maintain a good energy level and focus. Many schools now provide access to campus fitness centers so hit the gym!