

## 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. Smart planning can help keep your financial future secure.

### Short and long-term effects of defaulting

#### Short-Term

- Garnished wages: Up to 15% of disposable income may be taken out of each paycheck to repay your debt.
- Offset income tax refunds and lottery winnings: The federal government can seize federal and state income tax refunds to repay defaulted federal student loans.

#### 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 student aid: Defaulting on current loan may jeopardize your future eligibility.

**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 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 not possible, follow these tips:

- Keep your loan documents in one place
- Add a reminder to your calendar two weeks before your first payment is due. Most students who are late with a payment miss the very first payment
- Auto-pay your loans, set to pay before the due date.
- Alert your lender if you are having trouble making payments or know a payment will be late.
- Make copies of canceled checks and any forms you sign.
- Explore repayment options to find the right one for you.
- Borrow only 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 total student loan debt at graduation is less than your expected annual starting salary, you will be able to repay the debt in 10 years. Otherwise you will struggle to repay your student loans.

**Important:** If you're having trouble making payments, don't wait to notify your lender! You may have to pay entire loan amount with interest if you do not make your scheduled 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 payment amount 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 payment amount paid with an extended repayment period between 12 to 30 years.
- Income-Based Repayment (IBR) 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. Any remaining outstanding debt is forgiven after 25 years in repayment. The monthly loan payment under income-based repayment is lower than the payment under 15% wage garnishment, so defaulting on federal student loans will not save money. If your income is less than 150% of the poverty line, your monthly payment under income-based repayment will be zero.
- Loan Consolidation: Combines all of your federal 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.