

11 Steps to Relief From Federal Student Loans

Students and parents can negotiate lower debts, smaller payments, or temporary reprieves

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Falling behind on federal student or parent loan payments can be terrifying. Your credit scores drop, which can cut off opportunities to buy homes, go back to school, or get credit cards. Bankruptcy judges generally won't clear the debt, and the government can take part of your paychecks and even Social Security checks. But those having trouble making payments on federal education loans do have a growing number of attractive options to temporarily reduce or pause their monthly bills, or even get some of their debt forgiven.

Here are 11 steps to get at least temporary financial relief while preserving good credit ratings:

1. Document. Gather and keep good records of all phone calls and save copies of all paperwork and E-mails.

2. Determine your loan type. Look at your documents and, if necessary, call your lender to figure out what kind of educational loans you are having trouble with. This can be harder than it sounds. Through July 1, 2010, private lenders such as Sallie Mae and Citibank can make both federal and private student loans. (After that, students and parents will apply through their college directly to the federal government for federal student loans. Private companies will only make private student loans.) The confusion over the different kinds of loans offered by private companies could have caused some borrowers to mistakenly takeout private loans instead of federal loans. Unfortunately, private loans offer those in financial trouble fewer options for relief. (However, Congress is debating a proposal to allow debtors to use bankruptcy to [escape at least some private educational loans](#).) The following instructions apply only to the five major kinds of [federal education loans](#): Parent Plus, Grad Plus, unsubsidized Stafford, subsidized Stafford, and Perkins.

[Read about [other advantages of federal student loans](#).]

3. Determine who to call. You can get the name and contact information for your loan servicer by checking with the [federal government](#) or calling 1-800-4-FED-AID. Don't just call the company or school that gave you your loan. Most lenders sell their loans to investors, and hire companies called "servicers" to handle billing. If you've missed several payments, the servicer may turn your account over to a collections agency. In addition, those who have missed some payments often get calls from insurance companies, called guarantors, that backs many student loans. Borrowers generally need only deal with their servicer or collection agency.

4. Check the timing. People who haven't yet missed any payments have the easiest time of decreasing their monthly payments or getting permission to skip some payments, as costs and hassles rise the longer borrowers avoid paying. Lenders can add [late fees](#) of up to 6 percent of each monthly bill for every missed payment. It's still comparatively easy to get relief if you start negotiations before you've missed your ninth payment (or are less than 270 days late). After that, however, you're considered in default which means your credit rating plunges and you cannot receive any additional federal financial aid for college. Collection agencies can confiscate tax refunds or other government payments owed to defaulters, and they can garnish up to 15 percent of defaulters' wages. Lenders can add collection fees of up to 25 percent on most federal education debts starting 60 days after default. Those who default on Perkins loans can see their debts jump by collection fees of up to 40

percent.

5. Know what you want. If you could keep current with smaller monthly payments, check out the various payment plans, including "graduated repayment," which gives low monthly payments for a few years then gradually ratchets up, or the new "[income-based repayment](#)," which caps payments below 15 percent of your income. After 25 years of income-based payments, any remaining debt is forgiven. If you're having money trouble because you're a low-paid public servant, make plans to consolidate your loan directly with the federal government and sign up for IBR. After 10 years of payments, the government will forgive the rest of your debt—but only if you have signed up with IBR directly with the federal government.

[Read [tips about how to take advantage of IBR](#).]

If you believe you can't afford to make any payments for a while, check out the [deferment and forbearance options](#). Both programs allow borrowers to skip payments for up to three years. But borrowers should generally try for deferment first, since lenders must grant deferments to all qualified borrowers. And subsidized Stafford or Perkins loans suspend charging additional interest during deferments, so those debts don't keep growing. (The other kinds of loans do keep growing, however.) Lenders can choose whether or not to award forbearances, on the other hand, so those negotiations can be more difficult. Borrowers with incomes below 150 percent of poverty who want to skip payments can also consider signing up for IBR, since they won't be required to make monthly payments.

If you think you can't, or shouldn't have to ever pay off a federal education loan, you can try for a [complete discharge](#). But those are generally limited to people who've become permanently disabled, or were victims of loan or educational fraud.

6. Determine what's causing your financial problems. Figuring out the reasons your money runs out before the end of the month can help identify the best solution. If you're having trouble because you are working in a low-paid public service job, consider consolidating your loan directly with the federal government, signing up for IBR, and hoping for some debt forgiveness in 10 years.

If you are having trouble because you have returned to school at least half time, are ill, are caring for an ill spouse, are a new parent, are serving in the military, or have joined the Peace Corps, there's hopeful news. You can automatically qualify for a deferment of your payments, which means you won't have to make any payments until you leave school or the military.

If you are having trouble because you've lost a job or suffered a drop in income, see if you qualify for an "economic hardship" deferment. The government permits borrowers in severe financial difficulties to skip payments for up to three years. If you don't qualify for a deferment, you may be able to persuade your lender to grant you forbearance.

7. Take responsibility. Be realistic about your obligations and the rules. If you stopped paying because you moved and didn't receive a bill, don't expect much help. Borrowers are responsible for notifying lenders of moves and making payments. If the lender made a mistake on a bill, by, for example, failing to credit payments, you'll have to provide proof of your payments. If your debt seems much more than you borrowed, remember that most loans—subsidized Stafford and Perkins loans are typically the exceptions—keep accruing interest while you are in school or while your loan is in deferment. All types of federal loans accrue interest in forbearance. It is almost impossible to escape paying student loans, even if you file for bankruptcy, so it's in your best interest to try to reach a resolution as soon as possible.

8. Learn your rights. Unfortunately, some collection agency employees are poorly trained, or may have financial incentives to pressure you into paying faster or paying more than you can afford. The National Consumer Law Center's [Student Loan Borrower Assistance site](#) has advice. You can also read the federal government's [manual for student loan debt collectors](#) to find out what collectors are allowed to do.

9. Propose a reasonable solution. Generally, delinquent borrowers can switch to more affordable payment plans or win deferments without having to make any payments first. The government can also award retroactive forbearances or deferments to wipe away current delinquencies, though collectors may ask for evidence of a good reason, such as unemployment. The federal government allows its collectors to waive collection costs and knock as much as 10 percent off of the total debt for those who prove that's all they can afford and who make good faith efforts at repayment. Such discounts are left to the discretion of the servicer or collector, however.

[Read more tips from [the collections manual](#)]

10. Try to fix your record while you wait for a final agreement. Lenders typically urge borrowers to keep making payments during negotiations. But borrowers who can't make payments can ask for retroactive deferment or forbearance.

11. Get help. If you're having trouble with your collection agency or servicer, call the [Department of Education's ombudsman](#). If you need outside advice, contact the National Consumer Law Center or your local [legal aid office](#).

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