

Debt-management information for students and parents with federally guaranteed student loans.

Surviving Your Student Loans

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Preface

This book was written for everyone – student or parent – who has or will have student loans. It is designed to help people avoid the agony of mismanaging their loans. If you know what you are getting into, you can better plan for the future. If you already have student loans, you need to know how to manage them to your best advantage.

I spent a period of time working as a default prevention specialist – a debt collector – for student loans. This book was born from the heartache of spending ten hours a day throwing lifelines to those who were drowning in their student loans.

The major problem I encountered in student loan default prevention was simply that many people do not know what options are available to them. It is not surprising in a world of fluctuating economies that most people seem to have difficulty keeping up with their financial obligations at one time or another. The problem may be unemployment, or under-employment, or over-spending, or simple unawareness that a payment has become due and payable. In my position as a collection agent, the supervisor often bewailed the fact I spent too much time on each call, explaining the ways in which people could ease their financial burdens. From the other end of the telephone, I received daily requests begging me to write a book, to put my knowledge into simple, easy to understand terms.

Since leaving that position, I have used my best efforts to research the subject thoroughly and provide the most accurate information available. However, programs change. This book can only provide the starting place for you, the borrower, in the management of your debts. I went back and forth over the idea of including the necessary forms in this book, and finally decided not to do so. The forms change too frequently, and if you were to use what I could include, the likelihood is your request would be denied. The most current forms can be readily obtained from your lender or at www.dlsonline.com/defer. This site also includes instructions for completing the forms.

Student loans are a wonderful way to pay for your education. They allow you to go to school now, and pay for it later. Presumably, later you will be better able to pay. Student loans also have a multitude of ways to put off that later

payment, and it is the ease with which payments can be delayed which frequently causes problems for people. The purpose of this book is to educate you so you don't experience those problems.

The book is laid out simply, with an overview of student loans in general (including some of the common misconceptions people have) and a brief review of compound interest in the Introduction.

Chapter 1 covers the Master Promissory Note (MPN). This is the contract underlying all federally guaranteed student loans. I point out a few of the issues which most people tend to miss, ignore, or forget regarding their student loans. Since the Master Promissory Note changes with each change in loan programs, you must refer to your copy in order to know exactly what you signed.

Next, I describe the types of student loans available and some of the characteristics of each. The book concentrates on the most common types of federally guaranteed student loans, but brief mention is given to some of the other programs. The third chapter covers delinquency and default. I will point out the consequences of each and the timeline involved

Chapters 4 and 5 address the cures for delinquency – deferment and forbearance. Of course, payment is always the best cure, but if you had the money you wouldn't be delinquent.

The next chapter outlines the ways in which loans can be discharged. There are numerous ways to discharge both Stafford/Direct loans and Perkins loans, but in most cases, they are not the same ways.

Chapter 7 will go into the benefits of consolidation, and some of the limitations you may experience.

Chapter 8 tells you about the payment options available to you. Most lenders offer more than just the standard ten-year repayment plan.

Once you have the basics of student loans, Chapter 9 illustrates the use of those basics through examples. Many of you may find it helpful to skip straight to Chapter 9 and read the examples first, and then go back to the pertinent chapters to pick up the details about deferments, forbearances, loan types, and so on.

Finally, Chapter 10 details loan management ideas to help you avoid the need to use either deferment or forbearance.

Following the text of the book, I have added a couple of appendices. Acronyms, the wonderful shorthand common to every field of endeavor and

understood by no one outside the field, are included as Appendix A. Appendix B is a glossary of commonly used terms. You can thank my many reviewers for the glossary. I received repeated requests to create a glossary for the convenience of those who have not spent hours, days, and months living with these concepts.

This book was conceived as a way to help people who are already in trouble with their loans to get out of trouble. I tried to address the issues I came across most frequently in my position as a default prevention specialist. The book's secondary purpose – equally important – is to help those who are not in trouble with their loans to stay out of trouble. I don't have any 'insiders' tricks' to help you avoid paying your loans back. *There aren't any 'insiders' tricks'*. What I can give you is information, so you can make rational, informed decisions.

I have used my best efforts in researching the information contained in this book. However, programs change and regulations are subject to interpretation. The author and the publisher specifically disclaim any responsibility for or any liability for loss or risk – personal or otherwise – which may be incurred as a consequence, either direct or indirect, of the use or application of information contained in this book. The reader is advised to contact his or her lender for the most current information on eligibility for deferments, discharges, and forbearances.

Chapter 9: Making the Payments

Some not so real real-world examples

The best way I know to demonstrate the right and wrong ways to get through your student loans is to use examples. The following examples are based on fictitious people and imaginary situations. However, the problems and the solutions are realistic portrayals of what these imaginary people might do in the management of their loans, and what they shoulda (coulda/woulda?) done instead.

Megan – One way to do it right

Megan is an independent student. She is the divorced mother of one child. Megan's parents allowed her to live with them during her college years, providing room and board for her and her baby girl. They are unable to provide any other financial support. Megan graduated in 2002 with her teaching credential, having remained in school in the graduate program long enough to obtain the credential which she will need in order to teach. All of her Stafford loans were disbursed after July of 1993, so she qualifies for the economic hardship deferment. Unfortunately, some of her loans pre-date 1998, so she does not qualify to have her Stafford loans partially discharged after teaching for five years. She maxed out on her Stafford loans, with \$23,000 in subsidized Stafford loans, and \$23,000 in unsubsidized loans. She also has \$18,500 in graduate loans, of which \$8,500 are subsidized. The interest rate on her loans is 5%.

For the purposes of this demonstration I am going to ignore the interest which would accrue on unsubsidized loans while still in school, however I am going to acknowledge the interest which will accrue when Megan leaves school. Like so many others, Megan does not have employment to go to when she graduates, but she is fortunate enough to begin work after only six months of unemployment following her grace period. Unfortunately for Megan, her chosen career does not pay extremely well. At the end of her unemployment deferment (UED),

Megan learned the monthly payments on her student loan debts would be \$684.12 per month.

Since Megan’s monthly salary was only \$2500 per month, this seemed excessive to her. Megan explored the options available to her and decided the economic hardship deferment (EHD) was her best choice. Under that option, if her payments exceeded \$500 per month – 20% of gross income – Megan might qualify for deferment. Megan also realized that during deferment, the interest on her unsubsidized loans would accrue and capitalize. So she decided to make the \$500 per month payments.

Megan gave written instructions to her lender that everything over the amount required to pay the unsubsidized interest should be applied to principal reduction on her unsubsidized loans. In the absence of written instructions, lenders can and will apply ‘overage’ as they deem appropriate. After two years of EHD, Megan arranged with her lender to make interest only payments on the full amount of her loan. Once again, Megan chose to pay a little bit more than the interest due each month staying with the \$500 per month payment, and she instructed her lender to apply the overage to principal reduction of her unsubsidized loans. Refer to Table 10 for Megan’s payment history.

Table 10: Megan- Doing it Right

Year	Balance	Total Pmt due*	Total Mo. Pmt. made	Int. pd	Principal Reduction	status
		\$684.12 ⁺				
1	\$33,000 unsub. \$31,500 sub	None	\$0	\$0	\$0	Grace /UED
2	34,681.20 31,500.00	None	500	1,766.85	4,233.15	Additional pmt EHD
3	30,448.05 31,500.00	None	500	1,551.19	4,448.81	Additional pmt EHD
4	25,999.24 31,500.00	675.69	500	2,929.32	3,070.68	Forbearance/ Interest only
5	22,928.56 31,500.00	648.21	500	2,772.88	3,227.12	Forbearance/ Interest only
6	19,701.44 31,500.00	626.87	500	2,608.47	3,391.53	Forbearance/ Interest only
7	16,309.91 31,500.00	609.87	500	2,435.69	3,564.31	Forbearance/ Interest only
				14,064.40	21,935.60	

At the end of the seventh year (Megan's sixth year of payment), Megan's lender indicated she could not continue with interest only payments because even though she was paying a little bit extra each month, she would be unable to pay off the loan in the remaining years. The lender suggested Megan consolidate the multiple disbursements into a single loan, and based on the size of her balance, suggested she obtain a twenty year loan. Megan agreed to consolidate.

Over the past six years, Megan paid \$36,000 in principal and interest on her loans. Of that, \$21,935.60 went to principal reduction, and \$14,064.40 went to interest. When she consolidates, she has a balance on her new loan of \$42,564.40

Megan decided to go for the ten year payment option, which meant extending the time before she would be debt-free by another six years. By this time, however, she had received enough raises in her income she could increase the monthly payment. Megan wisely decided to raise the amount she chose to pay to \$600 per month. Since she now has only a single loan, she does not need to give written instructions to the lender regarding the overage. Megan could easily have set her payments to \$550 per month rather than \$600, but she chose not to do so. Her goal was to pay a little bit more than was necessary in order to pay off the loan as quickly as possible. Megan paid off her consolidated loan in 7 $\frac{1}{4}$ years, rather than the scheduled 10 years. Table 11 shows Megan's payment history on her consolidated loan. Since the lender recasts the payments each year in order to fully amortize the loan within the remaining term of the loan, Megan's required payments keep going down as she pays additional principal each month. This means if Megan happens to run into financial difficulties, and is unable to continue making the \$600 per month payment, she can drop down to the required payment at any time. The consequence, of course, would be that her loan would not pay off as quickly.

Table 11: Megan Consolidated

Year this loan	Year all loans	Balance	Pmt due*	Pmt made	Int. pd	Principal Reduction
1	7	\$42,564.40	\$451.46	\$600	\$2,168.46	\$5,031.54
2	8	37,532.86	432.28	600	1,912.12	5,287.88
3	9	32,244.98	408.22	600	1,642.73	5,557.27
4	10	26,687.71	377.20	600	1,359.61	5,840.39
5	11	20,847.32	335.74	600	1,062.07	6,137.93
6	12	14,709.39	277.58	600	749.37	6,450.63
7	13	8,258.76	155.85	600	420.75	6,779.25
8	14	1,479.51	√	600 ⁺	75.37	1,479.51
					9,390.48	42,564.40

Megan – Doing it Wrong

The story of Megan was designed to show you how student loan debt can be managed without the abuse of forbearance, and without unbearably high payments. Remember, Megan’s scheduled payments would have been nearly \$700 per month rather than the \$500 payment she chose to make during economic hardship deferment, and then the \$600 payment she chose to make after consolidating her loans. If Megan had simply used the economic hardship deferment, and let the interest on her unsubsidized loans build up, the story would have been very different.

Table 12 shows what typically happens when students who don’t understand their options get their first look at the payment statements for their student loans. You will notice they start out the same, with the grace period and the Unemployment Deferment, during which interest accrues on the unsubsidized loans. After that, instead of making at least the interest payments on the unsubsidized loans, I simply show the loans in deferment. After two years of economic hardship deferment, the payments have risen from a little over \$684 per month to just over \$740 per month. After that, through the use of forbearance, the borrower is accruing and capitalizing interest on the subsidized loans as well as the unsubsidized loans. With two years of economic hardship deferment, and five years of forbearance, the loan balance has grown from \$64,500 to an overwhelming \$89,492. The student has yet to make a payment, and the payments have risen from \$684.13 to \$949.21. Perhaps worst of all, the borrower has run out of the most popular delaying options.

At this point the lender will recommend consolidation as the only reasonable alternative. By consolidating, the borrower can extend the life of the loan as much as twenty years, putting the payments down around \$ 600 per month.

These are both admittedly extreme examples. There are smart ways to use forbearance and deferment, and not so smart ways. In the first example, Megan used her deferment and forbearance wisely. In the second example, she abused both and dug herself into a hole from which she may never emerge. In the real world, those who follow the first example pay off their student loans, and never have to talk to the bill collectors. Those who follow the second example spend the rest of their lives hanging up on the collectors and trying to understand where they went wrong.

Table 12: Megan - Doing it wrong

Year	Beg. Balance	End Balance	Beg. Pmt*	Total	End Pmt+	Total	status
1/2	\$33,000.00 unsub. \$31,500.00 sub.	\$34,681.20 \$31,500.00	\$350.02 \$334.11		\$367.85 \$334.11	\$701.96	UED
1	34,681.20 31,500.00	36,448.05 31,500.00	367.85 334.11	701.96	386.59 334.11	720.70	EHD
2	36,448.05 31,500.00	38,304.91 31,500.00	386.59 334.11	720.70	406.28 334.11	740.39	EHD
3	38,304.91 31,500.00	40,256.37 33,104.78	406.28 334.11	740.39	426.98 351.13	778.11	forbearance
4	40,256.37 33,104.78	42,307.24 34,791.31	426.98 351.13	778.11	448.73 369.02	817.75	forbearance
5	42,307.24 34,791.31	44,462.60 36,563.77	448.73 369.02	817.75	471.59 387.82	859.41	forbearance
6	44,462.60 36,563.77	46,727.76 38,426.52	471.59 387.82	859.41	495.62 407.57	903.19	forbearance
7	46,727.76 38,426.52	49,108.32 40,384.17	495.62 407.57	903.19	520.87 428.34	949.21	forbearance

A Farmer's Story Gone Wrong

All his life, John never wanted to be anything but a farmer. When he graduated from high school, he went off to the local agricultural college and studied farming. When John finished college, he had a farm and \$15,000 in

Stafford loan debt. John's loans were all subsidized, so life should have been pretty easy for him. John had graduated in June, and his payments didn't begin until January of the following year. John had been working part-time on a farm all through college, and was entitled to a share of the proceeds of those crops. Unfortunately, this is the time when things started to go wrong for John.

As a farmer, John did not receive a salary. He had a place to live. He had food on the table. He had a job to do. But he did not have a regular monthly paycheck. In January John received notice his monthly student loan payments would be \$ 223.97 per month. (John went to school at a time when interest rates were very high. His payment reflects 13% interest.) John had sold his crops in October, so he had enough in his bank account to simply pay up for the year. He wrote out a check for \$2800 and sent it off to his lender with directions to apply it to a full year's payments. Everything was fine that year.

The next year John's crops weren't quite so plentiful. John still received his lump-sum payment when he sold his crops in October, but it was less than he had hoped, and John was courting now. His money had to go further now, and there was less of it. When John received the bill in January, he just couldn't make himself write out the check. He didn't know what emergencies might come up over the next few months. So John started making regular monthly payments instead. Unfortunately, John's lump of money didn't last as long as he had thought it would. There was farm equipment which had to be repaired, and the electric bill went up substantially that year. John made the best decision he could for the good of the farm and stopped making his monthly payments in June. He called his lender to let them know the situation. His lender advised him to use a year of forbearance time.

When John's forbearance expired, in June of the following year, John was down to barely enough money in his account to carry him through until October when the crops would come in. He couldn't risk making even a few monthly payments. There was simply no help for it, so John called his lender and took a second year of forbearance.

John also got married that year, right after the crops came in – in October. The wedding was modest, but still it took a chunk of his ready cash. Mindful of the need to make some progress on his student loans, he sent in a check for \$1000, but since his payments were scheduled to be \$265.95 per month, he didn't make a great deal of progress on reducing his debt. As you can see,

John’s income cycle and his outgo cycle are out of kilter. John will come out of forbearance again in June, at a time when his cash resources are sorely strained. He called his lender, but he didn’t know the right questions to ask, so he ended up taking yet another forbearance. And the cycle repeats the next year, and the next. See Table 13.

Table 13: John - A farmer gone wrong

Year	Beg Balance	End Balance	Pmt due-mo	Pmt made Yr.	Status
1	\$15,000.00	\$14,247.14	\$223.97	\$2800.00	repayment
2 (1 st ½)	14,247.14	13,844.43	223.97	1343.83	repayment
3	13,844.43	15,733.86	247.86		forbearance
4	15,733.86	16,881.69	265.95	1,000.00	forbearance
5	16,881.69	19,185.63	302.24		forbearance
6	19,185.63	21,804.01	343.49		forbearance
7	21,804.01	24,779.73	390.37		forbearance

By this time, John’s loan has grown by nearly \$10,000 (\$24,779.73 at the end of year 7) and he is no closer to being able to make his payments. John consolidates his loan, because he is now out of forbearance time. Interest rates have gone up during the time when he has not been paying on his loan. Fortunately, at this particular time in the history of student loans, even consolidated loans carried variable interest rates. John feels fortunate he was not locked into a 17% fixed rate loan. However, there is a lower limit on how far the rate can drop, as well as an upper limit on how high it can climb. His rate will never drop below 9%. Since he still can’t make his monthly payments, John places his new loan in forbearance for a year. He sends in the payment he believes he can manage in October. He calls his lender to try to arrange for annual payments, but the lender is not prepared to handle annual payments. His lender actually *refuses to accept annual payments*. John continues to use forbearance every year, getting deeper and deeper into debt, with no hope of making progress on the loan.

What John Could Have Done

John’s situation is unique to those who receive their income annually rather than monthly. Annual income presents certain challenges, since most Stafford

loan lenders aren't equipped to deal with an annual payment cycle. However, the situation is not hopeless. To begin with, most student loan lenders will allow forbearance in less than 12 month increments. The first thing John needed to do was to get his outgo and his income aligned. He never had a problem making the payments on his farm equipment, because the loan cycle on those loans was set to the crop cycle. When John received his first bill, he paid for a full year, making the payments come due again in January, and it was the off-cycle payment which created his first difficulties. Had the bill come due in October, when his bank account was bulging, he would simply have paid the next annual installment. Then when the combine needed work later in the year, John would have managed some other way. John could have arranged for interest only payments in the year when the crops didn't do so well, or he could have requested forbearance for that single year. Instead, because he didn't know what was available to him, he buried himself in an escalating pile of debt.

The final option available to John at this time is to refinance his student loans with a long-term mortgage on the farm. Because rates have dropped so tremendously in the past few years, if he has enough equity in the farm, he can pay off his high-interest student loan with a low-interest farm loan. This will cause his payments to drop substantially and alleviate the problem of making monthly payments on an annual income. John's local banker understands fully the issues involved in farm lending.

Judith – Managing a teacher's budget through forbearance

Judith managed to get through college and obtain her teaching credential with a mere \$20,000 in Stafford loans. And she was fortunate enough all of her loans were subsidized. Like Megan, when Judith got her first teaching assignment, she discovered \$2500 a month doesn't go very far.

Her loans carried an 8% rate, which put her payments at \$242.66 per month. She shared an apartment with another teacher at her school, so making the payments – though a strain – did not present an insurmountable obstacle. Unfortunately, although she saved all during the academic year to provide for her needs throughout the summer, when June came around Judith didn't have enough to cover her rent, her car payment, her groceries, and her student loan payments. She let the student loan payment slide. She looked around for part-

time work to augment her savings, but didn't find a job she would feel happy doing. July rolled around and she missed her second payment. Within a few days of missing her second payment date, the telephone began to ring. The caller did not leave a message on the answering machine. Judith's roommate answered one morning, and the caller still refused to leave a message. The caller didn't catch Judith until nearly August, when she discovered her lender had turned her file over to the guarantor for collection.

Judith didn't know what to do. She owed \$727.98 in payments, plus late fees for the past two months, and she didn't have the money. The representative on the line asked Judith enough questions to know she did not qualify for a deferment, so her options included payment and forbearance. Judith heard the word 'forbearance', and it seemed like a lifeline to her. She quickly agreed to a one year's forbearance, heaved a huge sigh of relief, and promptly forgot all about it. Of course, Judith's forbearance expired in May of the following year. Her loan balance had increased by over \$1,600, and her payments – due to begin in June – were now \$262.66 per month.

Let's Rewind Here.

The caller didn't catch Judith until nearly August, when she discovered her lender had turned her file over to the guarantor for collection. Judith didn't know what to do. She owed \$727.98, plus late fees for the past two months, and she didn't have the money. The representative asked her when she could go back to making her regular monthly payments. Judith explained that as a teacher, her next paycheck would come at the end of September. The representative then advised Judith she could have a four-month forbearance (June, July, August, and September), with her next payment due in October. He further explained that if Judith could pay the \$540 in interest before the end of the forbearance, the lender would not capitalize it, and her payments would not increase. Then he advised Judith she could arrange for another short-term forbearance the following year when school let out for the summer. He told her she didn't need to wait until she was contacted by the lender or guarantor to resolve the delinquency.

After that, Judith made her regular monthly payments October through May, and skipped her payments June through September. It took her a little over

thirteen years to pay off her ten year student loan because she used one year of forbearance time every three years.

Most lenders do not require you take your forbearance in one-year increments. Some lenders *will* require a minimum one-year term, so check with your lender for their policy guidelines. Use forbearance as necessary, *but only as necessary*. Forbearance is a lot like *quicksand*. It may look fine on the surface, but if you don't get in and out quickly, it slowly sucks you under. When you've just been given permission to take time off from making payments on your loan at a time when you weren't able to make the payments anyway, it may look like a lifeline, but the cost of forbearance is a higher loan balance, higher payments, and a longer time before you finally get out from under your load of debt.

When Your Lender Can't Find You

Lamont graduated from college with a degree in Business and a job already lined up. He never stopped out of school, so his grace period was still good. Lamont had grants and scholarships for most of his expenses, but he went to a relatively expensive school, and finished up with the maximum \$23,000 in subsidized Stafford loans. He graduated in 2003, when the interest rates were at historical lows. Lamont's current interest rate is 3.88%, and his payments are about \$230 per month.

Lamont packed up his belongings and left school for the final time. He drove by his parent's home in Virginia and dropped off all the paperwork he had gathered over the years. He knew he would eventually need to sort through things, but time was short. He needed to get to his new job in Florida and find a place to live. Lamont's new job would be starting in only ten days.

In all the rush of relocating, Lamont forgot to notify his lender of his new address and contact information. January came around, triggering the repayment cycle on Lamont's loans. Lamont was easily in a position to make his payments, but he did not receive the billing information from the lender. Logical, since he forgot to tell the lender about his new address.

When the lender received no response from Lamont, they called his last known telephone number and found it disconnected. The lender mailed to Lamont's last known address, and the mail was returned. As the next step, the lender began to contact Lamont's references.

Lamont's parents refused to divulge their son's whereabouts to an unknown party over the telephone – merely stating he no longer lived or received mail at their address. The lender and the guarantor now have a problem. Neither the lender nor the guarantor's office may divulge to Lamont's parents that their son is delinquent on his student loan payments, and unless the parents know *why* the caller wants to contact Lamont, the parents won't give out Lamont's contact info. The lender leaves messages for Lamont to call, but Lamont doesn't call.

Weeks go by and the parents are becoming more than a little testy over the repeated telephone calls for Lamont, since they have already indicated numerous times that Lamont does not live with them. The telephone calls go on for another three months. Lamont is now six months delinquent on his payments – a very serious situation.

Finally, Lamont happens to be visiting at his parents' house when the lender's telephone call comes in. First thing, Lamont berates the default prevention specialist for harassing his parents. Then he blames the lender for not sending him a bill. Finally, he gives his current contact information, and tells the specialist not to call him at his parents' home again, ever. When Lamont finally cools down – after all, he's really mad at himself for forgetting about his student loans – he considers what he can do to resolve the situation.

Lamont makes a very decent salary. Unfortunately, like so many people, he also spends every dime he makes every month. He bought a new car. The car payments are an outrageous \$500 a month, because he had no credit history. He now has several credit cards. Credit card expenses run \$400 every month. He bought new furniture for his new apartment. His apartment is new and large and in a fancy complex. Rent is \$1500 a month.

Lamont is a single man. He spends about \$500 a month on entertainment, and another \$800 on groceries and utilities. There really isn't anything left over for student loan payments. Now he has to re-figure his budget to add another \$200 plus for student loan payments.

Lamont talks his situation over with the default prevention specialist, who explains there are no deferments for which Lamont qualifies. But the default

prevention specialist's job is to cure the account – today, if possible. Forbearance is the only option available. Lamont opts for a year of forbearance, raising his payment about \$10 a month, and adding nearly \$1000 in capitalized interest.

Had Lamont kept in touch with his lender, he would have known when to expect the loans to come into repayment, and he would have been prepared for them. He might have made the choice of renting a less expensive apartment, or buying a less expensive car, or spending less on furniture and new clothes. Lamont is a responsible person, and he certainly benefited from the education he received, but the student loan bills came due unexpectedly. Now Lamont will work hard to get his credit cards paid down before his student loans come due again. He will consider whether he should move to a less expensive apartment. When he receives his first raise, he will begin sending in monthly payments on his student loans so less of the interest will capitalize.

PLUS Loans

Herman and Winifred are the aging grandparents of Amber. They have raised Amber since her parents died when she was a teenager. When the time came for Amber to leave high school and go off to college, the thought never occurred to Herman and Winnie not to help her pay her way. When Amber entered college, Herman was still working full-time, and earning a handsome salary. Since PLUS loans are not subsidized, and interest is due from the time of disbursement, Herman has been making the payments regularly.

Amber has long since graduated and moved away, and Herman is planning to retire this year. The loan balance is now \$25,000, the interest rate 5%, and there are five years remaining before the loan will be paid off. The payments are \$471.78 per month. While he was working, Herman had no problem making the payment, but with retirement, his income will drop substantially.

Herman contacts his lender to find out what he can do to manage his loan better. The lender advises consolidation. By consolidating the loans, Herman can extend the repayment time from the existing five years to fifteen years. Consolidation will drop Herman's payment to \$198 a month, which is a manageable amount given his projected income.

Unfortunately, a few years after obtaining the new consolidated loan, Herman develops serious health problems. He is hospitalized for several weeks, and then released to a convalescent facility. Although his income does not change, his expenses increase dramatically. Because of his poor health, Herman does not call his lender, but Winnie does.

Winnie discusses the problems with the customer service representative, and discovers there are no applicable deferments. Winnie requests forbearance paperwork, which she completes and puts in front of Herman for signature. A one-year forbearance will raise the payments to \$208, and will capitalize nearly \$1,300 in interest. But there is really very little choice. Right now, their funds must be spent on medical expenses. Both Herman and Winnie heave a sigh of relief when they know the PLUS loan has been dealt with for the time being.

During the one year period of forbearance, Herman passes away. There are considerable expenses to be met, but fortunately there is insurance to cover most things. Winnie's widow's pension is about two-thirds of what Herman's income was. Winnie never worked outside the home and has no pension in her own right.

When the PLUS loans come back into repayment, Winnie begins to make the payments as regularly as Herman always did. She never misses a payment, and never questions her need to make the payments. Five more years pass. Winnie develops health problems, though not as serious as those which felled Herman. She spends a few days in the hospital, and a few months in a convalescent facility. During her stay in the care home, Amber makes certain the utilities are paid at the house. A neighbor stops by twice a week to carry in the mail. When Winnie finally returns home, it is to discover the PLUS loan has not been paid for four months. Before she has the opportunity to call her lender and make arrangements, they call her.

When a bill collector calls, they always ask for the borrower by name. They asked for Herman. With a catch in her thin, reedy voice Winnie explains Herman passed away five years ago this month. Winnie then asks if she can have another forbearance, since she has been in the hospital, and really doesn't have the funds to catch up on her missed payments.

The lender, of course, checks the records and discovers the loan was in Herman's name alone. Winnie was never credit-worthy. Winnie is advised to

send a copy of Herman's death certificate to the lender, and ignore all future billings.

I won't belabor the likelihood of Winnie receiving a refund for the five years' worth of payments she sent in. The refund will probably happen, but not in a timely manner. Had Winnie known her rights and obligations under the terms of this loan, she need not have scrimped to make those payments after her husband passed away.

Stay-at-Home Moms

As young people with an eye to the future (or old folks trying to move up in the world) we go to college or trade schools to give ourselves marketable skills so we can support ourselves and our families. However, many find the highest and best use of our educations is in the training and nurturing of children. I have used the term stay-at-home Moms, but the designation will apply equally well to stay-at-home Dads.

Stay-at-home Moms put their careers on hold while they spend their time caring for and teaching the next generation. Sometimes this situation occurs a few years after leaving school, and the student loan is already a part of the monthly budget. But when one of the wage-earners stops earning, the budget usually requires some adjustment.

John and Mary Beth each have student loans on which they have been paying for five years. They now have twin sons, and Mary Beth has left her employment to spend the next few years raising the boys. John still owes \$4,000 in subsidized loans, and \$6,000 in unsubsidized loans. Current interest rate is 4%. John's payments are \$184.17 per month. If he places his loans in forbearance for a year, his payment will increase to \$ 191.64 per month. If he uses five years of forbearance – until Mary Beth returns to the active work force, his payments will increase to \$224.72 per month.

Mary Beth still owes \$12,000, but all of her loans are subsidized. Mary Beth's payments are currently \$221 per month. After one year of forbearance, the payments would increase to \$ 229.97 per month, and after five years the payments would rise to \$269.66. (Of course, when Mary Beth goes back to work, she and John should be able to handle the higher payments, but they will also need to budget for after-school child care if she plans to work full time.)

John and Mary Beth talk the matter over with their lender and discover Mary Beth will qualify to defer her loans under the economic hardship deferment. Student loans are personal loans – not community property loans – and the income qualification for the economic hardship deferment is based upon Mary Beth's *personal income* and not on *family income*. (This is not true for Perkins Loan Economic Hardship deferment. For Perkins loans, the worksheet calls for income from *all* sources. *We can also expect this particular loophole to be closed as soon as it is brought to the attention of the Department of Education.*) Mary Beth completes the paperwork, stating she, personally, has zero income. Her loans are placed in deferment for a period of twelve months.

After taking a serious look at their budget, John and Mary Beth determine they can handle the payments on John's loans and have a little bit extra left over to pay on Mary Beth's loans. Since Mary Beth's loans are all subsidized, there is no interest to pay on her loans. They make the full payment on John's loans and pay \$100 per month towards principal reduction on Mary Beth's loans.

After the deferment expires, the payments on John's loans remain the same, \$184.17 per month. The remaining balance on Mary Beth's loans has decreased to \$10,800, giving her a new payment of \$198.90. John and Mary Beth are not yet in a position to make Mary Beth's payments, so they place her loans in deferment for a second year and continue to pay \$100 per month towards principal. At the end of the second year, her remaining balance is down to \$8,600 and her payment is down to \$158.38. John and Mary Beth decide they still are unable to make this payment. They decide to place Mary Beth's loans in forbearance, but continue to make the \$100 per month payment to cover the interest as it accrues. Of course, this payment more than covers the interest, so Mary Beth continues to reduce the principal balance.

As you can see from Table 14, after two years of deferment and four years of forbearance (while making a \$100 per month payment on Mary Beth's loans), the principal has been reduced enough that the monthly payments will recast to less than \$100 per month.

Table 14: Staying home and getting ahead

Year	Beg. balance	End balance	Pmts made	New pmt due	Status
1	\$12,000.00	\$10,800.00	\$100	\$198.90	EHD
2	10,800.00	8,600.00	100	158.38	EHD
3	8,600.00	7,749.19	100	142.71	forbearance
4	7,749.19	6,863.84	100	126.41	forbearance
5	6,863.84	5,942.54	100	109.44	forbearance
6	5,942.54	4,983.83	100	91.78	forbearance

You must keep in mind John and Mary Beth have been making full payments on John’s loans this entire time. They have now paid John’s loans off entirely (at the end of year five). The twins are five years old, and Mary Beth is ready to return to the work force. She still has five years in which to pay off her student loans, but if she chooses to keep the monthly payment at the \$300 per month they have been paying for the past five years, she can be paid off in about eighteen months. She also has one year of forbearance left for emergencies.

As you can see from Table 15 below, if Mary Beth continues with the \$300 per month payment in year six (instead of making only the \$100 per month payment she and John had been sending on her loans), she can save the additional year of forbearance for emergencies. Of course, before the end of year seven, she’ll be paid off entirely, so those emergencies won’t have a chance to arise.

Table 15: Getting further ahead

Year	Beg. balance	End balance	Pmts made	New pmt due	Status
1	\$12,000.00	\$10,800.00	\$100	\$198.90	EHD
2	10,800.00	8,600.00	100	158.38	EHD
3	8,600.00	7,749.19	100	142.71	forbearance
4	7,749.19	6,863.84	100	126.41	forbearance
5	6,863.84	5,942.54	100	109.44	forbearance
6	5,942.54	2,544.90	300	91.78	Add. pmt
7	2,544.90	0	300	57.46	Add. pmt

The principles involved remain the same, whether the stay-at-home partner is male or female. The stay-at-home has no income, and therefore qualifies for the economic hardship deferment. In this example, I had John making minimal

payments towards Mary Beth's loans. But what if there isn't a partner who can make these minimal payments for you?

The Wrong Way to Stay at Home

Let's put Amanda in the same sort of situation as Mary Beth, but without a partner to help her out. Amanda is receiving Aid for Dependent Children and Food Stamps while she stays at home to care for her new baby. She has \$12,000 in subsidized loans, five years left to pay on them, and no salary.

Table 16: Staying home and drowning in debt

Year	Beg. Balance	End Balance	New pmt.	Status
1	\$12,000.00	\$12,000.00	\$0	EHD
2	12,000.00	12,000.00	0	EHD
3	12,000.00	12,487.25	229.97	forbearance
4	12,487.25	12,994.28	239.31	forbearance
5	12,994.28	13,521.90	249.03	forbearance
6	13,521.90	14,070.94	259.14	forbearance
7	14,070.94	14,642.28	269.66	forbearance

When we compare Amanda's situation to Mary Beth's, we see that while Mary Beth was able to pay only \$100 per month towards her loan in the first five years, she paid it every month. Unfortunately, Amanda has no salary and therefore makes no payments. During the first five years, when Mary Beth cut her principal to less than half by making \$100 per month payments, Amanda added over \$1500 to her principal by using three years of forbearance time. Then, during the two years when Mary Beth paid off her loan entirely, Amanda added another \$1100 to her balance.

Realistically, there isn't a great deal Amanda can do without an income of any sort. Aid for families with dependent children simply doesn't stretch far enough to accommodate student loan payments. But as you can see, the problem only gets bigger if the loan stays in forbearance. Perhaps Amanda should have considered getting a part-time job so she could have made at least minimal payments. Depending upon her field of study, she might have explored

the Full-Time Child Care Provider option for having her loans dismissed. By working as a child care provider, she could have spent the early years with her own child, while at the same time earning enough to support herself, and possibly even qualifying for forgiveness of her loans. Long-term forbearance isn't just *like* quicksand, *it is quicksand!* If you depend upon long-term forbearance to save you, you will ultimately be drowned by your debt.

New Home Blues

The residential home loan industry is single-handedly responsible for helping thousands of students to drown in forbearance. Before we begin, though, understand there is a world of difference between being *responsible* and being *to blame*.

Derek and Joan are young suburban professionals. They both have good jobs, new cars, and heavy student loan indebtedness. They have managed to save \$15,000 for a down-payment on a new house.

Derek and Joan meet with a real estate agent, who shows them their dream house and introduces them to a mortgage broker.

The broker takes a pre-qualifying application. The house requires a \$150,000 mortgage. The payment at today's interest rate (6%) will be \$900.

Derek and Joan aren't concerned about this payment since the rent on their apartment is \$850 per month. They have car loans of \$450 and \$395, respectively. The property taxes on their new home are expected to be around \$150 per month and utilities will be another \$300. Derek and Joan have used their credit cards freely for the past several years, so their monthly credit card payments amount to \$600 per month. The total sum brings them to \$2,795 in monthly expenses. Between them, they bring home \$4,200 per month.

Derek owes \$30,000 in Stafford loans, only \$10,000 of which are subsidized, and Joan owes \$25,000, with \$5,000 subsidized. Derek's payments on his student loans are \$483.15 per month, and Joan's are \$402.62. When added to their other indebtedness, their monthly outgo – exclusive of groceries or entertainment expenses – is \$ 3,680.77 per month, leaving Derek and Joan about \$500 per month for entertainment and to eat on. (Of course, once Derek and Joan are home owners rather than renters, they will have the option of increasing

their tax deductions to account for the interest they will be paying, so their take home income may increase slightly.)

After checking all the calculations, the mortgage broker tells Derek and Joan they can qualify for the home loan, but only if they place their student loans into forbearance. Forbearance, the mortgage broker tells them, will free up nearly \$900 in monthly cash flow, making the payments easier to handle. The decision is up to them.

Derek and Joan immediately decide to request a year’s forbearance on their student loans.

Unfortunately for Derek and Joan, freeing up nearly \$900 a month simply meant they spent the extra cash in other ways than making their student loan payments. They bought furniture. They bought appliances. They took a vacation. They ran up their credit cards even further, until the monthly payments exceeded \$1,000 per month.

Derek and Joan did not make payments on their student loans, because they did not *have* to. Their loans were in forbearance, after all.

But, after five years of forbearance, they had added over \$12,000 to their student loan indebtedness, and just over \$200 a month to their *required* payments. And by now their credit cards are so high they can’t make the payments anyway. Should Derek and Joan be blamed for not realizing what an attractive web forbearance can create, or how thoroughly stuck they might become? Perhaps not, but they certainly had the information available to them. Like so many others, they never read and understood.

Table 17: New home forbearance

Year		Beg Balance	End Balance	Beg Pmt	End Pmt	Joint Pmt.
1	Derek	\$30,000.00	\$31,538.36	\$483.15	\$507.76	
1	Joan	25,000.00	26,276.63	402.62	423.14	\$ 930.90
2	Derek	31,538.36	33,134.58	507.76	533.63	
2	Joan	26,276.63	27,612.15	423.14	444.69	978.32
3	Derek	33,134.58	34,822.63	533.63	560.82	
3	Joan	27,612.15	29,018.86	444.69	467.35	1,028.17
4	Derek	34,822.63	36,596.68	560.82	589.39	
4	Joan	29,018.86	30,497.24	467.35	491.16	1,080.55
5	Derek	36,596.68	38,461.11	589.39	619.41	
5	Joan	30,497.24	32,050.93	491.16	516.18	1,135.59

Their mortgage broker initially advised Derek and Joan to place the loans in forbearance so they could qualify for the home loan. Derek and Joan still had the *right* to make payments on their student loans they simply were not *required* to do so.

Had Derek and Joan continued to make the payments on their student loans instead of spending that 'extra' \$900 a month (While they were in forbearance), they could have had their loans almost paid off by the end of the five years they spent in forbearance. Instead, at the end of that time, their only option is to consolidate their loans and start over.

Rather than being nearly free of their student loan debts, Derek and Joan have consolidated their loans, placing their new payment at \$465.35 per month for the next twenty years.

More PLUS Loans

One of the common practices with PLUS loans is to place the loans in the mother's name. Placing the loans in the mother's name is usually done because the father (as the traditional breadwinner) already has a lot of credit. PLUS loans are granted based on credit, with no qualifying ratios or proof of income required, so placing the loans in the mother's name is an easy way for a woman with little or no credit history to establish an independent credit rating.

Placing loans in the mother's name can be a very dangerous practice for women who do not work outside the home. As long as someone else (presumably, in this instance, the husband) is making the payments on the loans, there are no problems to be resolved. If the husband should die, or if the parents separate and the husband no longer makes the payments on the student loans, the financial consequences to the woman can be disastrous.

PLUS loans are not subsidized loans. Deferment and forbearance have the same consequences in that all interest accrues and is capitalized. Interest accrues from the date of disbursement. This means while the student is in school, the parent must either make payments or place the loan in forbearance and expect to pay more at the end of the forbearance.

In order to qualify for deferment, the *borrower* must qualify for the deferment. If the parent borrower is in school, the loan will qualify for an in-school deferment, but the interest will still accrue. If the parent borrower is

unemployed, or has zero income, the loan will qualify for an unemployment or economic hardship deferment, but the interest will still accrue. These are important distinctions which many borrowers do not fully comprehend.

Underage Students

Danita was a very bright teenager who graduated from high school at seventeen and went right on to college. Because she was only seventeen when she entered college, she could not take out a Stafford loan in her own name. Danita's mother took out the loan on Danita's behalf – a PLUS loan. When Danita's mother took the loan, the financial aid office helped her to place the loan in forbearance for the first year.

With the coming of the second semester, Danita had already reached her eighteenth birthday and was able to arrange for a subsidized Stafford loan on her own.

The following September, the forbearance on the PLUS loan expired, and Danita's mother had the option of placing it back into forbearance or beginning repayment.

Danita's Mom had taken out a \$5,000 loan for her daughter's first semester, but somehow she had not understood the loan would be in repayment immediately. She believed the loan would be in in-school deferment and would transfer to Danita's name as soon as Danita reached her eighteenth birthday. It doesn't happen that way. Since the loan was small, and the interest rate low, Danita's Mom had the choice of making \$53 per month payments now, or placing the loan back into forbearance and making \$55 per month payments next year. Wisely, she decided to begin paying on the loan immediately.

Kimberly's Mom was faced with a different situation. Kimberly was a very indifferent student in high school, excelling only in her drafting classes. Kimberly was recruited by one of the local trade schools for their CAD drawing program. They explained to Kimberly and her parents that she could complete their program in only a few short months instead of spending four or more years in a college program.

Kimberly's parents talked it over with Kimberly, and the family decided the CAD drawing program was the best option for her. Kimberly entered the training program as soon as she left high school in June.

Kimberly too, was only seventeen at the time she entered post-secondary school. Kimberly's Mom signed for the PLUS loan. Kimberly soon discovered that although the program was designed to speed her through the training in a very short time, she was, *heaven forbid*, required to study. And she was *also* required to study things she had no interest in studying, like geometry and trigonometry, and calculus. Kimberly was promptly dropped from the program after only six weeks because she would not keep up with her class work.

Kimberly's Mom was less than pleased. Unfortunately, she now had a \$10,000 unsubsidized loan to pay back, for an education her daughter did not receive. She saw no reason she should pay the loan, and wanted to sue the school.

Kimberly's Mom may or may not have a cause of action against the school. Only her attorney can advise her on such a matter. However, the school and the lender are two separate entities. The lender loaned her money in good faith, and Kimberly's Mom is obligated to repay the loan.

Officer Bruce

Bruce graduated with a degree in Criminal Justice and a desire to be a police officer. He completed his training with the local police department, and began working as a rookie, making a princely salary of \$35,000 per year. Bruce has \$20,000 in Perkins loans. His payments are \$212.13 per month. Bruce is a divorced man, with two small boys to support. Two hundred dollars a month is a strain on his budget. Bruce contacts his school and determines forbearance is available to him. They also tell him about the deferment option, and the possibility his loans may be discharged for his service as a police officer. They explain to him that if he uses forbearance, his loan balance will increase by over \$1,000, and his payments will go up to \$222.94 per month. The school sends Bruce the necessary paperwork, and he places his loans in deferment while he performs his public service as a police officer. Eventually all of Bruce's loans are discharged as a result of his work in public service. Had Bruce's loans been Stafford loans, the story would have been different. Stafford loans do not qualify for discharge for police department service, nor do they qualify for deferment.

Nurse Andrew

Andrew graduated and passed his state boards as a registered nurse. Andrew has \$15,000 in Perkins loans (5% interest rate) and \$25,000 in Stafford loans (4% interest rate). Andrew is the type of person who always checks out his options before making major career decisions.

The first thing Andrew did after graduation was contact NERLP about the possibility of working in an eligible facility. He was fortunate enough to be hired, and signed a three-year contract.

Andrew's payments on his Perkins loans were scheduled to be \$159.10 per month. However, since he was working in the nursing profession, he was able to defer his payments on his Perkins loans, and after three years NERLP paid \$12,750 towards his qualifying loans, leaving him a Perkins loan balance of \$2,250.

Andrew also had the Stafford loans, half of which were subsidized. However, there is no qualifying deferment for Stafford loans. His Stafford loan payments were \$253.11 per month. Andrew set up an automatic draft from his checking account to make this monthly payment, insuring it was made on time every month. Table 18 shows Andrew's payment history, and the benefits of automatic payments.

You will notice at the end of years four and eight, Andrew applies the on-time payment rebate he has earned to principal reduction. Applying the payment rebate to principal reduction allows Andrew to pay off his Stafford loans in nine years and five months, rather than the ten years he was expecting.

After Andrew's three year contract, NERLP has paid off 85% of his Perkins loans. His payment to amortize the remaining balance over ten years would be \$23.86 per month, but Andrew instead chooses to make a minimum payment on his Perkins loans of \$50 per month. His Perkins loans are paid in full during years four through eight, with only three payments due in year eight. Should Andrew choose to divert that \$50 per month towards his Stafford loans, he can pay them off a year earlier as well.

Table 18: Combining discharge and deferment with repayment

Year	Perkins balance	End balance	Stafford balance	End balance	Annual Pmt	Status
1	\$15,000.00	\$15,000.00			\$ 0	deferment
			\$25,000.00	\$22,977.78	3,037.32	repayment
2	15,000.00	15,000.00			0	deferment
			22,977.78	20,814.32	3,037.32*	repayment
3	15,000.00	15,000.00			12,750.00 ^v	deferment
			20,814.32	18,568.58	3,037.32	repayment
4	2,250.00	1,764.63			600.00	repayment
			18,568.58	15,386.99	3,887.77 ⁺	repayment
5	1,764.63	1,254.53			600.00	repayment
			15,386.99	12,934.85	3,037.32	repayment
6	1,254.53	718.44			600.00	repayment
			12,934.85	10,389.45	3,037.32	repayment
7	718.44	155.04			600.00	repayment
			10,389.45	7,747.25	3,037.32	repayment
8	155.04	0			155.04	
			7,747.25	4,161.11	3,887.77 [#]	repayment
9	0	0	4,161.11	1,282.04	3,037.32	repayment
10	0	0	1,282.04	0	1,282.04	

Over the course of just under ten years, Andrew has managed to pay off – or have paid for him – \$40,000 in student loan debt. His payments never rose above \$303.11 per month for all loans, and through the use of automatic checking account deductions, Andrew has managed to have his lender not only reduce his interest rate, but also pay \$1700 towards his principal.

No New Home Blues

You need to be aware you may have received more than one disbursement in a given time period. Charles found himself in an unfortunate situation because he did not realize he actually received two disbursements at a time. Charles attended a trade school, training to be a slot machine technician. Charles received two disbursements his first term, one subsidized and one unsubsidized, for a total of \$5,000. Because he received both disbursements at the same time, he didn't pay attention to the details of his loans and thought of them as a single

loan. Then Charles stopped out of school the next term. His two loans went into their grace period. When he returned to his training after a few months off, the school arranged for his existing loans to be placed back into in-school deferment while he completed his education. When he finished the second term, those first two loans went into repayment immediately, while the second two loans (another \$5,000) went into their grace period. Unfortunately, Charles didn't read the paperwork which came to his last known address. Charles relied on his understanding of the grace period, rather than double-checking, and he 'knew' he wasn't in repayment yet. So he ignored the notices.

Employment opportunities were slim for his chosen profession in rural West Virginia. Charles did not find a position right away, and he continued to ignore the notices which came in the mail. He avoided answering the telephone. He moved and gave no forwarding address. Eventually the guarantor on his loan made contact with him and explained he was in default on his two loans. Now remember, Charles attended school for two terms, and he believes he has two loans. In fact, he has four loans. Two of his loans are subsidized, and two are unsubsidized, and the two sets of loans came into repayment six months apart. The first two came into repayment as soon as he finished school, and the second two still had their grace period to run. So when Charles made arrangements with the guarantor to rehabilitate his two loans, he thought he was taking care of the entire situation.

At this point his second two loans were delinquent, but not yet in default. The guarantor's office continued collection efforts on the two loans not in default, but every time Charles talked to someone from the guarantor's office, he explained he was already handling the situation with another department. Naturally, the two departments never checked with one another. So now Charles is diligently making payments on his first two loans, believing he only has two loans, and his second two loans are being ignored – and eventually going into default.

After six months of making payments on the defaulted loans, Charles attempts to purchase a home. The credit report comes back showing the defaults. Charles knew he had credit issues, and he never believed he would be able to qualify for an "A" loan, but he also knew there are mortgage companies who specialize in less than perfect borrowers. He had carefully selected one of

these “B” to “C” brokers. After reviewing the credit report, the broker told Charles his attempts to rehabilitate his credit had not yet gone far enough. He explained to Charles the six months of rehabilitation on the first two loans would normally enable him to qualify for a home loan – though not at a desirable interest rate. However, the two defaulted loans – the ones not in rehab – would prevent him from obtaining a home loan until he had followed the same procedure with them.

Charles made a number of mistakes. First, he didn’t read his paperwork, so he didn’t know what loans he had and what rights he had. Charles might have qualified for deferment (unemployment or economic hardship). He definitely qualified for forbearance. Second, he failed to keep in touch with his lender. One simple conversation with the lender would have put him on notice there were in fact four loans to be dealt with rather than two. Third, he ignored the telephone calls and letters sent to him by both his lender and the guarantor. He actively refused all the offers of help which came his way.

Charles’ mistakes won’t keep him from getting a home loan permanently, but they will definitely delay his dreams. Once he has made regular payments on the second two loans for a period of six months, his mortgage broker may be able to find him a loan. The interest rate will be higher than he might have hoped for, and there may be higher up-front fees involved, but Charles will eventually be able to buy a home. Of course, it won’t be the house he had picked out. Adding these two additional loans into his debt ratios may cause him to qualify for a smaller loan, and four defaults instead of two may cause the lenders to take a harder look at his credit. And his dream house will have been long since bought by someone else.

D’Artagnan and the “I’m in jail” deferment

D’Artagnan graduated from college with an MBA and went to work immediately as a stock broker. He drew an excellent salary and had no problems making his monthly payments. For the first few years of his career, he was bringing money home by the wheel barrowful. Like most young people, he and his wife also spent almost as fast as the money came in, but D’Artagnan

knew the power of compounding, and he made sure a goodly percentage went into savings.

Unfortunately, D'Artagnan enjoyed the challenge of the stock market a little too much. He was scooped up in one of the 'insider trading' scandals, and had to spend three years in jail. During his period of incarceration, his wife continued to make the payments on his student loans, on their joint credit cards, and on their home and cars. The market crashed, and their savings evaporated at a frightening rate. His wife sold his car and the house and moved into a small apartment with their three children. But the house was heavily mortgaged and the housing market was slow, they owed more on the cars than they were worth and she didn't realize enough from the sales to be much help. Six months before D'Artagnan was scheduled to be released from jail, his wife stopped making payments on his student loans and shortly thereafter she applied for welfare for herself and their two children. When the lender started calling, she didn't want to discuss her husband's incarceration, so she simply told them he was unavailable. When the guarantor started calling, she did the same thing. She tossed the letters and delinquency notices in the garbage since she didn't have the money to pay the bill.

By the time D'Artagnan rejoined his family, his loans were well on their way to default. He had no money, no job, and no prospects. Fortunately, he was home when the next call came in from the guarantor's office. Once D'Artagnan got past his anger that the guarantor and the lender had been, in his words, 'harassing' his wife, he was ready to listen. After only a few moments, he realized there was a way to salvage the situation. D'Artagnan had been in jail for the past three years, including the period of his delinquency. His income during that time period had been considerably less than Federal Minimum Wage. At the time he was contacted, he was receiving public assistance in the form of Aid for Needy Families and Food Stamps. His federal education loan debt most definitely exceeded 20% of his gross monthly income. Once the proper paperwork for an economic hardship deferment had been completed and processed, D'Artagnan was no longer delinquent on his loans.

Unemployment Happens

Despite our best efforts, many of us will end up unemployed at some point in our lives. We may be in that situation because we left a perfectly good job to stay home and take care of children, but now we are trying to return to the work force. We may leave a job because we wish to relocate – for whatever reason – to another part of the country. The company we work for may down-size. Our positions may be shipped overseas. We may not have liked what we were doing and wanted to change careers. Or we may not have been any good at what we were doing and were fired. Now we are trying to reenter the work force.

The actual reasons for your unemployment are not relevant to the Unemployment Deferment. In order to qualify for the Unemployment Deferment, you must be substantially unemployed and actively seeking permanent, full-time work in any field. If you are working twenty hours a week because you cannot get work forty hours a week, and you are looking for full-time work, you probably qualify. If you have been a stay-at-home parent for the past few years, but are now actively seeking full-time employment outside the home, you probably qualify.

However, if you were unhappy in your last position and quit so you could open your own business, and you are working like a demon trying to get your new business off the ground, you probably *do not* qualify since you are not actively seeking full-time employment. (*You might want to look into the possibility of qualifying for the economic hardship deferment instead.*)

Your Best Option is Deferment

If your loans are subsidized, and you qualify for the Unemployment Deferment, your best option is to place your loans in deferment. Then if you have the resources to make payments, do so. Making payments has no effect on qualification and *will not* throw you out of deferment or forbearance.

Having the loans in deferment protects your credit if you are unable to make the payments. Allowing the government to make your interest payments for you will be financially beneficial to you while you can't make your payments. Remember, for subsidized loans, the balances don't go up during deferment the way they do during forbearance.

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* The lender will re-cast payments yearly in order that the payments may fully amortize the loan over the expected re-payment period of 10 years. Payments shown are what would be required to pay off the loan in this time period.

+ This is the standard payment required to fully amortize the loan within 10 years. During grace, deferment, and forbearance no payments are actually due.

* Again, the lender will re-cast the payment based on the outstanding balance so that the loan will be fully paid off at the end of the term.

√ No payment is shown here. Amortizing the remaining balance over the remaining term of the loan yields a payment in the range of \$50, but the loan will be paid off in only three payments.

+ Two equal payments of \$600 and a final payment of \$354.88

* During forbearance and deferment, no payments are required. Payments are shown here to demonstrate what they would be if the loan were in repayment rather than deferment or forbearance.

+ The payment rises each year because the balance rises with the capitalized interest.

* After 12 months of on-time payments through automatic checking account deductions, the lender drops the interest rate by $\frac{1}{4}\%$ so more of the payment applies to principal reduction.

√ This is the payment from NERLP. Andrew has made no payments so far on these loans.

+ After 48 on-time payments through automatic checking account deductions, Andrew's lender gives him a 7% rebate on his payments – which he applies to principal reduction.

Another 48 on-time payments have been made.

Debt-management information for students and parents with federally guaranteed student loans.

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