Arkansas Legal Services Partnership

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ALSP Law Series

School Loan Repayment

When do I start repaying my loan?

After you graduate, leave school, or drop below half-time enrollment at a participating school, generally you have a "grace period" before you have to begin repayment.

- For Federal Perkins Loans, the grace period is nine months.
- For FFEL Stafford Loans and Direct Stafford Loans, the grace period is six months.
- If your parents borrow a FFEL PLUS Loan or a Direct PLUS Loan for you, there is no grace period. The first payment on these loans is generally due within 60 days after the final loan disbursement.

If you should return to school at least half time before the grace period ends, you again may postpone loan repayment while you're in school, and you'll be entitled to a full grace period when you terminate enrollment or drop below half-time enrollment status. Once the grace period ends, however, you are in repayment status and must request a deferment if you want to postpone repayment.

Do I have to pay back my loan?

Federal student loans are real loans, just like car loans or mortgages. You can't just get out of repaying a student loan if your financial circumstances become difficult any more than you could get out of a car loan or mortgage, unless you qualify for bankruptcy. But, it's very difficult to have federal student loans discharged in bankruptcy; this happens only rarely.

Also, you can't cancel your student loans if you didn't get the education you expected, didn't get the job you expected, or didn't complete your education, unless you leave school for a reason that qualifies you for a discharge of your loan.

For example, you might have left school early because

1. You became totally and permanently disabled.
2. The school falsely certified your eligibility, signed your application or promissory note without your approval.
3. Your school closed, and you couldn't complete your program of study.

Loan Discharge

Federal student loans can be discharged (canceled). A discharge releases you from all obligations to repay the loan. In the next column is a list of reasons why your loan could be discharged. They are separated into reasons for a discharge of a Direct loan and reasons for a discharge of a Perkins loan.

Direct Loan and FFEL Discharge/Cancellation

- Borrower's total and permanent disability or death
- Full-time teacher for five consecutive years in a designated elementary or secondary school serving students from low-income families
- Bankruptcy (in rare cases)
- Closed school (before student could complete program of study) or false loan certification

Perkins Discharge/Cancellation

- Borrower's total and permanent disability or death
- Full-time teacher for five consecutive years in a designated elementary or secondary school serving students from low-income families
- Full-time special education teacher
- Full-time qualified professional provider of early intervention services for the disabled
- Full-time teacher of math, science, foreign languages, or other fields designated as teacher shortage areas
- Full-time employee of a public or nonprofit child or family-services agency providing services to children and families of low-income communities
- Full-time nurse or medical technician
- Full-time law enforcement or corrections officer
- Full-time staff member in the education component of a Head Start Program
- Vista or Peace Corps volunteer
- Service in the U.S. Armed Forces
- Bankruptcy (in rare cases)
- Closed school or false loan certification

What is Default?

For a Federal Perkins Loan, default occurs if you don't make an installment payment when due or don't comply with the promissory note's other terms. Default for a Direct Loan occurs if you become 270 days delinquent (if you're making monthly payments).

What Happens if I Default?

- ❑ The entire loan balance (principal and interest) can be due and payable.
- ❑ The entire loan balance (principal and interest) can be immediately due and payable.
- ❑ You'll lose your deferment options.
- ❑ You won't be eligible for additional student aid.
- ❑ Your credit rating can be damaged.
- ❑ Your federal income tax refunds might be withheld and applied toward your loan repayment.
- ❑ Your wages may be garnished.
- ❑ You might be unable to obtain a professional license.

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Glossary

Borrower: Person legally responsible for repaying a loan and who has signed the promissory note

Cancellation: The release of borrowers from their obligations to repay all or a portion of their ED loans. Borrowers must meet certain requirements to be eligible for cancellation.

Capitalized interest: Unpaid, accumulated interest that is added to the loan principal. Because the principal increases, so does the total cost of the loan.

Consolidation: The combination of several types of federal education loans into one new loan. Consolidation simplifies loan repayment.

Default: Failure to repay a loan in accordance with the terms of the promissory note.

Deferment: The temporary postponement of loan payments; during this time, the borrower does not have to pay either principal or interest.

Delinquency: Failure to make payments when due, as specified in the promissory note and in the selected repayment plan. Delinquency can lead to default

Direct Loans: Loans made by the U.S. Department of Education (instead of a private lending institution) under the William D. Ford Federal Direct Student Loan Program. Direct Loans consist of Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans. A student can receive a Direct Unsubsidized Loan regardless of financial need.

Forbearance: Temporary postponement or reduction of payments because of the borrower's financial difficulties. Forbearance also may be an extension of the repayment period. All borrowers are charged interest during forbearance.

Grace period: A period of time between when the borrower graduates or drops below half-time status and when repayment begins. For Stafford Loan or Direct Stafford Loan, the grace period is six months.

Guarantor: The state or nonprofit private agency that administers the Federal Family Education Loan (FFEL) Program in each state.

Interest: A loan expense charged a borrower for the use of borrowed money. Interest is calculated as a percentage of the principal of the loan, which includes the original amount borrowed and any capitalized interest.

Lender: The organization that made the loan initially; the lender could be the borrower's school (for Federal Perkins Loans); a bank, credit union, or other lending institution.

Loan holder: The organization that currently "owns" the loan and to which the borrower owes repayment. Many banks sell loans, so the initial lender and the current holder could be different.

Loan principal: The total sum of money borrowed. Loan principal includes the original amount borrowed plus any interest that has been capitalized.

Perkins Loans: Low-interest (5 percent) loans made under the Federal Perkins Loan Program to undergraduate and graduate students. Because the school is the lender, students repay the school that made the Federal Perkins Loan or to the agent the school hires to service the loan. A student must show financial need to qualify.

PLUS Loans: Loans made to the parent of a student. Parents with good credit histories can borrow to help pay for the education expenses of a child who is a dependent undergraduate student enrolled at least half time at a participating school. The interest rate is variable but does not exceed 9 percent.

Prepayment: Any amount the borrower pays before it is required to be paid under the terms of the loan's promissory note. There is never a penalty for prepaying principal or interest on U.S. Dept of Education loans.

Promissory note: A binding legal contract between a loan holder and a borrower. The promissory note contains the loan terms and conditions, including how and when the loan must be repaid. By signing this note, the borrower agrees to repay the loan.

Repayment schedule: A statement the loan holder provides the borrower that lists the amount borrowed, the amount of monthly payments, and the date payments are due.

Servicer: An agency a school or lender employs to service (collect) a student loan account. Often, the borrower will deal with the loan servicer when there are questions about repayment. Servicers also approve deferments and forbearances on the lender's behalf.

Stafford Loans: Loans made to undergraduate and graduate students under the FFEL and Direct Loan programs. Borrowers can receive FFEL or Direct Stafford Loans regardless of financial need.

Subsidized loan: A federal student loan made on the basis of the borrower's financial need and other specific eligibility requirements. The federal government pays the interest on these loans while borrowers are enrolled at least half time, during the grace period, or during authorized periods of deferment.

Unsubsidized loan: A federal student loan made to a borrower meeting specific eligibility requirements, but not based on financial need. The borrower is responsible for paying all interest that accrues throughout the life of an unsubsidized loan.

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This fact sheet is given to you as a guide to help you generally understand the way consumer law matters are handled. Local courts interpret things differently. The information and statements of law contained in this fact sheet are not intended to be used as legal advice. Before you take any action, talk to an attorney and follow his or her advice. ***Always do what the court tells you to do.***

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