



## STUDENT LOAN PROBLEMS

### IF YOU CANNOT PAY YOUR LOAN

As soon as you know that you will not be able to make a payment, call your lender. Ask for “forbearance” or “deferment” of your payments. These mean that you are asking for a short period of time that you will not have to make payments. In some cases, you have a right to stop making payments for a short time to let you find a job. You may also get a deferment if you are in school or are temporarily disabled.

### LONGER TERM SOLUTIONS

If you have a job, but do not earn enough to make full payments, talk to your lender. You may be able to consolidate or refinance your loans. Consolidate means putting 2 or more loans together and paying them with one payment. Refinancing means taking out a new loan to pay off one or more old loans. Doing either of these things may lower your monthly payments.

If your debts are **very** large, see a lawyer about bankruptcy before you talk to the lender. But it is **not** easy to get rid of student loans in bankruptcy.



### REPAYMENT PLANS

If the lender will not refinance the loan, you can try asking for a different repayment plan. Some lenders will agree to a repayment plan because they would rather have small regular payments than no payment at all. **Make sure your payment plan is something you can follow through on, and do not miss any of your payments.** There are several different repayment plans.

For more information and eligibility rules on repayment plans, go to:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/OtherFormsOfRepay.jsp>

In July 2009, the government started a new repayment plan option for student loans. It is called the **Income Based Repayment Plan (IBR)**. In this plan your monthly payment is capped at an amount that you can afford depending on your income and family size. For more information on this or to use the IBR calculator online go to:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp>

Remember: you need the lender’s agreement to make smaller payments; otherwise, they may sue you.

## WHAT IS THE PUBLIC SERVICE LOAN FORGIVENESS PROGRAM?

If you work full-time in certain public service jobs, you may be able to get part of your student loan forgiven. If you make 120 payments (about 10 years) you may be able to stop paying after that time. If you are repaying on a standard loan, you should be paid off after 10 years. But if you have reduced monthly payments through another program like the Direct Loan Income Contingent or an Income Based Repayment Plan, there will be a balance due after 10 years. This balance is the part that can be forgiven and you will not have to pay. But you cannot be in default or you will not be able to do this program.

For program details and more information, go to:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/PSF.jsp>

## CANCELING PART OR ALL OF YOUR LOAN

Sometimes you can have all or part of a federally guaranteed student loan canceled.

- If you become totally and permanently disabled. Get a statement from your doctor describing your disability, saying that it keeps you from working and that it is permanent. Send this statement to the lender.
- The loan can be discharged (cancelled) in bankruptcy – but only if you can show extreme hardship. Talk to a lawyer about this. It is not easy to do.
- If your school closed while you were enrolled, contact the lender.
- If your school certified that you were able to complete the program when you couldn't, contact the lender. For example, a school might certify a student, even though s/he has a mental disability that prevents him from being able to do the work.
- If the school owed you a refund for all or part of tuition but never paid it. Contact the lender.
- If you withdraw from school, tell the school and lender **right away** in writing. Keep a copy of your letter. Then ask for the money back.
- Sometimes federal loans will be forgiven if you join the military or the Peace Corps, or work as a full-time teacher in certain schools after you graduate.
- The loan is cancelled when you die. Your family should send the death certificate to the lender.



## WHAT CAN THE LENDER DO IF I DO NOT PAY?

- **Federally guaranteed loans.**

The lender can ask the IRS to take your tax refunds. If you get a notice that they are taking your tax refund and you do not think you owe the money, appeal. Follow the directions on the notice.

The Department of Education can lower your Social Security Retirement or Disability Insurance payments to collect on a defaulted student loan.

The lender can also do an “administrative garnishment” without going to court. Garnishment means taking part of your paycheck to pay the loan. In this type of garnishment, they must leave you 85% of your net wages. This is what most lenders do. But the lender **could** choose to sue you in court. Then they can use the same collection rules as non-federal lenders. But they can take more money - a federally guaranteed lender only needs to leave you 30 times the minimum wage per week when they garnish your pay. See below.

- **Loans that are not federally guaranteed.**

The lender can sue you in court and get a judgment. Then they can garnish your wages or bank account. Your wages cannot be garnished if you are on an assistance program, such as MFIP, GA, MA, or SSI. Also, your wages cannot be garnished within 6 months of getting any of these benefits or leaving prison. They must leave you at least 75% of your net wages, or 40 times the minimum wage, whichever is more, per week. See our fact sheet [C-4 Garnishment and Your Rights](#). **If you get any type of garnishment notice, talk to the lender about a payment plan right away to see if you can avoid the garnishment.**

### **GETTING FINANCIAL AID AFTER A DEFAULT**

If you default on your loan, you will not be able to get financial aid again unless you can make a payment plan with the lender. The plan should have payments you can afford based on your total income and costs. To get aid again, you must make 6 payments in a row.



### **WHAT IF A COLLECTION COMPANY CALLS?**

Agents collecting on student loans are covered by the fair debt collection laws. They cannot harass you. See our fact sheet [C-3 Your Debt Collection Rights](#).

### **NEED MORE INFORMATION?**

If you have questions about student loans, repayment plans or need more information, go to the Department of Education website at:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/index.jsp>

Or call the Federal Student Aid Information Center (FSAIC) at:

1-800-4-FED-AID (1-800-433-3243)

(TTY) 1-800-730-8913.

### **PROBLEMS WITH YOUR LENDER?**

If you need help resolving a dispute with your student loan lender, or if you think the lender is violating your legal rights call the Student Loan Ombudsman at: 1 (877) 557-2575.

To find other Legal Aid Society materials, including the fact sheets mentioned in this document, go to

[www.lawhelpmn.org/LASMfactsheets](http://www.lawhelpmn.org/LASMfactsheets).

---

**Minneapolis Legal Aid – CLE**  
MN Legal Services Coalition  
2324 University Avenue W. – Suite 101B  
St. Paul, MN 55114

**Do not use this fact sheet if it is more than 1 year old.**  
Write us for updates, a fact sheet list, or alternate formats.  
Fact Sheets aren't a complete answer to a legal problem.  
See a lawyer for advice.