# Student Loan Problems

## Warnings and Scams

Never pay upfront for student loan debt relief! Borrowers have been getting emails, letters, phone calls, texts, etc. offering to enroll them in loan forgiveness. Or telling them that their federal student loan payment is late, and they need to pay immediately. **It's a scam!**

Also, private lenders are telling borrowers to move their loans to a private lender. They say you'll get lower payments and lower interest rates. **DON'T do it!** You lose federal protections if you move your loans to a private lender.

Find good info on student loan scams on the MN Attorney General website. https://www.ag.state.mn.us/Consumer/Publications/StudentLoanAssistanceScams.asp.

## Student Loans

Federal and private student loans can be a great way to pay for college. But if you get behind on paying back the debt it can be really hard to deal with. You must normally repay your loans even if you don't finish school. Student loans can't normally be "discharged" (thrown out) by declaring bankruptcy.


If you co-sign for family or a friend's federal student loan you can be held responsible to pay the full amount of the loan. Think carefully before you agree to co-sign for anyone's loan.

## Know Your Loan

You have different choices for loans and your legal rights depend on the kind of loan you have. If you don't know who your lender is, you can find out by logging into your Federal Student Aid account at https://studentaid.gov/ or by calling them at 1-800-4-FED-AID (1-800-433-3243).

1. There are several kinds of **Federal Student Loans**:

    - Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct Consolidation Loans
    - Direct PLUS Loans (for graduate and professional students or parents)
    - Federal Family Education Loans (FFEL) **Note:** this program ended in 2010
    - Federal Perkins Loans **Note:** this program ended in October 2015

For more information on Federal Loans, go to https://studentaid.gov/understand-aid/types/loans.

2. **Private Student Loans** usually do not have the federal protections described below.

The information on this fact sheet is divided by federal student loans and private student loans. There are important differences. Because of the differences, you should apply for federal loans *before* you apply for private student loans.

## Options for Repaying Your Federal Student Loan

If your loan is ***not in default***, you have options for repaying federal loans:

**Important:** If you have to miss a payment, call your lender as soon as possible. You have more options if you contact your lender ***before*** you miss any payments and go into default.

1. **Income-Based Plans.** There are different income-based repayment plans based on your income and family size. For more information and an application go to: https://studentaid.gov/idr/.
   - → To apply, scroll down and click on "Log in to Apply" under "Apply for an Income-Driven Repayment Plan"

   When you apply, ask your lender to find the plan with the lowest monthly payment.

   **Note:** if your plan lowers your payments, your loan might take longer to pay off. Then the total amount you pay might be higher because of additional interest charges.

2. **Extended payment plans.** Sometimes it is possible to lower your payments by extending your payment plan. Some plans are as long as 25 years.

3. **Graduated payment plans.** These payments start out low and increase every 2 years. Usually, the plan must be for 10 years but, if your loan balance is high enough, you can apply for an extended payment plan. This could be as long as 25 years.

4. **Consolidate your loans.** If you have more than one federal student loan, you can simplify your payments with consolidation. You can apply for this at https://studentaid.gov/app/launchConsolidation.action.

5. **Postpone your payments.**

a. If you are unemployed, going to school (at least half-time) or if you are on active duty in the military, you might qualify for "deferment." This means that you postpone paying back your loans. You might still be responsible for paying the interest that builds up during the deferment period. For more information on when you might be responsible for paying the interest during deferment, go to https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief/deferment.


b. If you are temporarily disabled or have a financial hardship, you might be eligible for "forbearance." This means that you can temporarily stop payments or make smaller payments. You are still responsible for paying the interest that builds up during the forbearance period. For more information on forbearance, go to https://studentaid.gov/manage-loans/lower-payments/get-temporary-relief/forbearance.

c. The difference between a forbearance and deferment is that a forbearance stops payments for a shorter period of time (usually up to 12 months). A deferment can stop payments for a year or longer.

## What happens if I default on my federal student loan?

## What is a "default?"

You are in default when you don't make the payments. For federal loans, you default when you have not made payments for 9 months or longer. For private loans, you are in default after missing just 1 payment. Try to deal with your loan problems before you are in default.

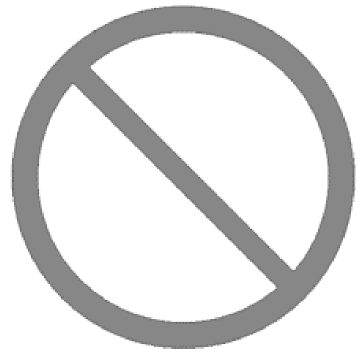
## The lender can make you pay if you are in default.

If you are in default, the lender has several different ways to make you pay.


- The lender can take your tax refunds. If you get a notice that they are taking your tax refund and you don't think you owe the money, appeal. The notice tells you how to appeal.
- If you get Social Security Retirement or Disability Insurance payments, the lender can take up to 15% of your monthly benefits. This is called an "offset." The offset must leave you with at least $750 a month. If you get less than $750 a month, the lender can't do this.
- 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 kind of garnishment, they have to leave you 85% of your net wages.

- The lender **might** sue you in court. If this happens, see our fact sheet *What to Do if You Are Sued*. If the lender gets a judgment against you, they might be able to garnish your paycheck or bank account. See our fact sheet *Garnishment and Your Rights*.

### You will be denied financial aid if you are in default.



If you default on your loan, you won't 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.

### The lender can send your loan to a collection company.

If debt collectors are collecting on student loans, they can't harass you and they have to follow the Fair Debt Collection laws. See our fact sheet *Your Debt Collection Rights*.

**Note**: there is _no_ time limit ("statute of limitations") for collecting on a federal student loan.

## How can I get out of default on a federal student loan?

1. **Rehabilitate your Loan:** If you have a Direct Loan, you have to make 9 monthly payments during a period of 10 consecutive months. If you have a Perkins loan, you must make 9 monthly payments in a row.

Even if you are dealing with a debt collector you must contact your loan holder to rehabilitate your loan. They must offer you reasonable and affordable payments for the rehabilitation payment plan – this might be as low as 15% of your disposable income.

**Note:** depending on the kind of loan, your lender might charge you a rehabilitation fee that is up to 16% of your loan.

2. **Consolidate your loans.** Consolidation replaces the older defaulted loans, with a new loan that is not in default. If you have more than one federal student loan, you can simplify your payments with consolidation. You can apply for this at https://studentaid.gov/app/launchConsolidation.action.

If you are in default, you bring your loan out of default by consolidating and making 3 reasonable and affordable payments. When you finish the consolidation, then you can apply for the different repayment plans above.

## Can I cancel ("discharge") my federal student loan?

1. **Total and Permanent Disability Discharge.** Sometimes you can have your federally guaranteed student loan canceled. If you are disabled and will never be able to earn enough money to pay back the loan amount, you may qualify for a Total and Permanent Disability (TPD) Discharge. See our Fact Sheet *Discharging a Student Loan Because of a Disability.* You can get a copy of the application and more information at the Total and Permanent Disability (TPD) Discharge website at www.disabilitydischarge.com.

2. **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. In this program, 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.

This program is only available for Direct Loans. If you have a different federal loan, you must change ("consolidate") your loan before you can start this program.


3. **School Related Discharges.** These are rare but you might be able to get your loan discharged if:

    - If your school closed while you were enrolled.

    - 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 owes you a refund for all or part of tuition. If you withdraw from school, tell the school and lender **right away** in writing. If you don't follow the school's rules for withdrawing, you might lose your refund and be responsible for the student loans. Keep a copy of your letter. Then ask for the refund.

4. **Bankruptcy** 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.

5. **A student loan is cancelled when the borrower dies**. The family should send the death certificate to the lender.

## How are private student loans different?

1. Private lenders DO NOT have to give you an income-based payment plan. They might give you different payment options, but they are not legally required to do this.

2. Private lenders can say you are in default as soon as you miss your first payment. They do not have to wait 9 months like most federal lenders.

3. Private lenders usually try to make you pay by suing you in court and then trying to garnish you. If this happens, see our fact sheet *What to Do if You Are Sued*.

   If the lender gets a judgment against you, they might be able to garnish your paycheck or bank account. See our fact sheet *Garnishment and Your Rights*. Private lenders cannot take your tax refunds or offset 15% of your Social Security benefits.

4. Unlike federal loans, private lenders have a deadline for suing you ("statute of limitations") after you default on your loan. In Minnesota, the time limit is 6 years.

5. If you are in default, private lenders are not required by law to let you get out of default ("rehabilitate") your loan. However, some private lenders do this, so it's a good idea to check with your lender.

6. Your only option for discharging your loan is through bankruptcy – but only if you can show extreme hardship. Talk to a lawyer about this. It is not easy to do.

## What rights and protections do I have under the Minnesota Student Loan Borrower Bill of Rights?


Minnesota passed a "Student Loan Borrower Bill of Rights." This bill set up a "Student Loan Advocate." If you have a complaint about, or a dispute with, your student loan servicer, you can contact the advocate at Student.Loan.Advocate.COMM@state.mn.us.

It is against the law to mislead you or deceive you, or to take advantage of you because you don't know the law. Also, servicers must tell you about the income-based repayment program and check your eligibility for it.

## What if I have a problem with my lender or servicer?

Most student loans are "serviced" by a company different from the lender. These companies collect payments, answer questions from borrowers, and do other administrative tasks that have to do with the loan.

Student loan servicers in Minnesota must be licensed by the Department of Commerce. If you have a complaint against your servicer, contact the department at 651-539-1600 or file a complaint online at https://mn.gov/commerce/consumer/file-a-complaint/. The department can make the servicer give you money back (called "restitution") for wrongdoing.

You can call the federal Student Loan Ombudsman at:
1 (877) 557-2575 or look for the "Ombudsman" online help form at:
https://studentaid.gov/feedback-ombudsman/disputes/prepare.

If you need help resolving a dispute with your federal student loan lender or if you think the lender is violating your legal rights, contact the Federal Student Loan Ombudsman Group.

U.S. Department of Education
FSA Ombudsman Group
P.O. Box 1854
Monticello, KY 42633

Toll-free phone number: 877-557-2575
Fax number: 606-396-4821

The Consumer Financial Protection Bureau (CFPB) has an online form that you can use. Use this form to tell them about complaints with **private** student lenders or about servicers and collectors of all kinds of student loans. Go to: www.consumerfinance.gov/complaint.

## Have questions?

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

Or call the Federal Student Aid Information Center (FSAIC) at:
1-800-4-FED-AID (1-800-433-3243)
(TTY) 1-800-730-8913.

If you don't know who your student loan lender is, you can find out by logging into your Federal Student Aid account at https://studentaid.gov/ or by calling them at 1-800-4-FED-AID.

## For More Information about Student Loans

A National Consumer Law Center Project: http://www.studentloanborrowerassistance.org/

Consumer Finance Protection Bureau: http://www.consumerfinance.gov/paying-for-college/

Federal Student Aid website: https://studentaid.gov/

U.S. Department of Education: https://www.ed.gov/

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*Don't use this fact sheet if it is more than 1 year old. Ask us for updates, a fact sheet list, or alternate formats.*

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