Student loans are borrowed money that must be repaid, with interest. These loans cannot be cancelled because you didn’t like the education you received, didn’t finish your education, didn’t get a job in your field of study or because you’re having financial difficulty. Loans are legal obligations that you have to repay.

Exit counseling is required when you withdraw, graduate, or drop below half-time (6 credit hours) attendance (even if you plan to transfer to another school). It helps you understand your rights and responsibilities as a student loan borrower and provides useful tips on managing your student loans.

**Types of Loans**

1. **Subsidized Stafford**: loans for undergraduate students. You must have need as determined by the FAFSA to qualify for these loans. The federal government pays the interest on these loans while you are enrolled at least half-time and during deferment periods. Beginning July 1, 2012, the federal government no longer pays the interest during the six-month grace period.

2. **Unsubsidized Stafford**: loans for undergraduate, graduate, and professional students. You are not required to show need. You are responsible for paying the interest; starting from the date the loan is first disbursed.

3. **PLUS loan**: for graduate or professional students and for the parents of dependent undergraduate students. You are responsible for paying the interest; starting from the date the loan is first disbursed.

4. **Consolidation Loans**: allow student and parent borrowers to combine multiple federal education loans into one loan with one monthly payment. The federal government is currently the sole provider of loans (referred to as Direct Loans). You may have loans through a lender (FFELP loans). Check the National Student Loan Database at [www.nslds.ed.gov](http://www.nslds.ed.gov) to determine which type(s) of loans you have.

**Glossary of Terms**

- **Loan** – the money borrowed from a lender or the federal government that must be repaid with interest.
- **Grace Period** – the six month period after you graduate, leave school, or drop below half-time enrollment during which you are not required to make payments on subsidized and unsubsidized Stafford loans. Beginning July 1, 2012 the federal government will not pay the interest during the grace period for subsidized Stafford loans.
- **Master Promissory Note (MPN)** – the binding legal document that you signed before receiving your student loans and by which you agreed to repay your loans. It contains the rights and responsibilities and explains the terms and conditions of the loan.
- **Lender** – the entity that originally made the loan. It may be the lender, bank, or credit union for the FFEL loans or the federal government for Direct Loans.
- **Servicer** – the entity that holds the loan promissory note and has the right to collect from you.
- **National Student Loan Data System (NSLDS)** – the government’s central database for student aid. It contains information about all of the student loans you have received. You can access this information at [www.nslds.ed.gov](http://www.nslds.ed.gov) using your PIN.
- **Default** – failure to repay a loan according to the terms of the promissory note. There can be serious legal consequences for student-loan defaulters.
- **Deferment** – a postponement of payment on a loan that is allowed under certain conditions and during which interest does not accrue for subsidized loans.
- **Forbearance** – a period during which your monthly loan payments are temporarily suspended or reduced. You may qualify for forbearance if you are unable to make loan payments due to certain types of financial hardships.
Interest Rates and Payment of Interest

Interest is a charge for using borrowed money. Every borrower has to pay interest no matter what type of loan he or she has. The federal government pays the interest on subsidized loans while you are in school and during deferment periods. The interest on unsubsidized loans begins accruing on the date of disbursement. You can choose to pay the interest as it accrues (i.e. during school and deferment periods) or let it accrue and be added to the principal balance of your loan which is called capitalization.

The following chart is an example of capitalization. It shows the difference in the total amount you would repay on a $15,000 Direct Unsubsidized Stafford loan if you pay interest as it is charged during a 12-month period:

<table>
<thead>
<tr>
<th>Loan Amount</th>
<th>Pay interest as it Accrues</th>
<th>Do not pay interest (capitalize)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalized interest for 12 months (at the maximum rate of 7.9%)</td>
<td>$0</td>
<td>$1,185</td>
</tr>
<tr>
<td>Principal to be Repaid</td>
<td>$15,000</td>
<td>$16,185</td>
</tr>
<tr>
<td>Monthly payment (standard repayment plan)</td>
<td>$181</td>
<td>$196</td>
</tr>
<tr>
<td>Number of Payments</td>
<td>120</td>
<td>120</td>
</tr>
<tr>
<td>Total Amount Repaid</td>
<td>$21,744</td>
<td>$23,462</td>
</tr>
</tbody>
</table>

Fixed and Variable Interest Rates

All Direct and FFEL loans with a first disbursement date that is on or after July 1, 2006, have fixed interest rates that will remain the same throughout the life of the loan. Loans disbursed prior to that date have variable interest rates.

Repayment

When you graduate, withdraw from school, or drop below half-time (6 hours) you will have six months before your first payment is due. This is called the grace period. Your repayment period begins the day after your grace period ends. Your first payment will be due within 45 days after your repayment period begins. You may prepay all or part of your loan(s) at any time without a penalty. If you do not repay your federal student loans under the repayment plan you agree to when you enter repayment, your credit history will be affected.

You must make payments even if you don’t receive a bill or repayment notice. You must make payments for the full monthly amount required by your payment plan. Partial payments do not fulfill your obligation to repay your loan on time.

There are several types of repayment plans available. Generally, you’ll have from 10 to 25 years to repay your loan, depending on which repayment plan you choose. The options are generally the same in the Direct Loan and FFEL programs except that the Income-contingent repayment plan is available only in the Direct Loan program and the Income-sensitive repayment plan is available only in the FFEL program.

- **Standard Repayment Plan**—you generally pay a fixed amount each month for up to 10 years. Your payment must be at least $50 a month.
- **Graduated Repayment Plan**—your payments start out low at first and then will increase, usually every two years. You must repay your loan in full within 10 years. At a minimum, your payments must cover the interest that accumulates on your loans between payments. This plan is tailored to borrowers with relatively low current incomes (i.e. recent college graduates) who expect their incomes to increase in the future. You’ll ultimately pay more for your loan under this plan.
- **Extended Repayment Plan**—to qualify you must have had no outstanding loan balance as of October 7, 1998 and must have more than $30,000 in loans from the same program (Direct or FFEL). Under this plan you must repay your loans in full within 25 years. You may choose to make fixed or graduated monthly payments. Your monthly payment will be lower but you’ll ultimately pay more.
• **Income-Based Repayment (IBR)**—the required monthly payment is capped at an amount that is intended to be affordable based on your income and family size. You are eligible for IBR if the monthly repayment will be less than the monthly amount calculated under a 10-year standard repayment plan. If you repay under the IBR plan for 25 years and meet other requirements, you may have any remaining balance of your loans cancelled. Additionally, if you work in public service and have reduced loan payments through IBR, the remaining balance after ten years in a public service job could be cancelled.

• **Income-Sensitive Repayment Plan (FFEL loans only)**—your monthly payment is based on your annual income. As your income increases or decreases, so do your payments. The maximum repayment period is 10 years.

• **Income-Contingent Repayment Plan (Direct loans only)**—your monthly payments will be based on your annual income (and that of your spouse, if married), your family size, and the total amount of your Direct loans. Borrowers have 25 years to repay under this plan. The unpaid portion will be forgiven.

• **Pay As You Earn Payment Plan**—for new borrowers on or after October 1, 2007 and must have received a disbursement on or after October 1, 2011. Must have partial financial hardship. Maximum monthly payments will be 10% of discretionary income, the difference between adjusted gross income and 150% of poverty guideline for your family size. Payments change as income changes and the balance of loan is forgiven after 20 years of qualifying payments.

If you don’t choose a repayment plan, you will be placed on the standard repayment plan. If you want to change repayment plans, you must contact your loan holder or loan servicer. The following table shows some of the differences of some of these repayment plans.

<table>
<thead>
<tr>
<th>Initial debt when you enter repayment</th>
<th>Standard (not to exceed 10 years)</th>
<th>Graduated (not to exceed 10 years)</th>
<th>Income Contingent (Income = $25,000) for Direct Loans only</th>
<th>Single</th>
<th>Married/HOH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per month</td>
<td>Total Repaid</td>
<td>Per month</td>
<td>Total Repaid</td>
<td>Per month</td>
<td>Total Repaid</td>
</tr>
<tr>
<td>$3,500</td>
<td>$50</td>
<td>$4,471</td>
<td>$25</td>
<td>$5,157</td>
<td>$27</td>
</tr>
<tr>
<td>$5,000</td>
<td>$58</td>
<td>$6,905</td>
<td>$40</td>
<td>$7,278</td>
<td>$38</td>
</tr>
<tr>
<td>$7,500</td>
<td>$83</td>
<td>$10,357</td>
<td>$59</td>
<td>$10,919</td>
<td>$57</td>
</tr>
<tr>
<td>$10,500</td>
<td>$121</td>
<td>$14,500</td>
<td>$83</td>
<td>$15,283</td>
<td>$80</td>
</tr>
<tr>
<td>$15,000</td>
<td>$173</td>
<td>$20,714</td>
<td>$119</td>
<td>$21,834</td>
<td>$114</td>
</tr>
<tr>
<td>$40,000</td>
<td>$460</td>
<td>$55,239</td>
<td>$316</td>
<td>$58,229</td>
<td>$253</td>
</tr>
</tbody>
</table>

**Sample Standard Repayment Plan:** You must repay at least $600 a year ($50.00 a month), unless you have a deferment or your servicer agrees to a lesser amount. The minimum payment will be based on the total amount of your loans. The sample payment table below is based on a ten year repayment schedule:

<table>
<thead>
<tr>
<th>Total Balance</th>
<th>7%</th>
<th>8%</th>
<th>9%</th>
<th>10%</th>
<th>11%</th>
<th>12%</th>
<th>13%</th>
<th>14%</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,000</td>
<td>50.00</td>
<td>50.00</td>
<td>50.00</td>
<td>50.00</td>
<td>50.00</td>
<td>50.00</td>
<td>50.00</td>
<td>50.00</td>
</tr>
<tr>
<td>$5,000</td>
<td>58.06</td>
<td>60.67</td>
<td>63.34</td>
<td>66.08</td>
<td>68.88</td>
<td>71.74</td>
<td>74.66</td>
<td>77.64</td>
</tr>
<tr>
<td>$10,000</td>
<td>116.11</td>
<td>121.33</td>
<td>126.68</td>
<td>132.16</td>
<td>137.76</td>
<td>143.48</td>
<td>149.32</td>
<td>155.27</td>
</tr>
<tr>
<td>$25,000</td>
<td>290.28</td>
<td>303.32</td>
<td>316.69</td>
<td>330.38</td>
<td>344.38</td>
<td>358.68</td>
<td>373.28</td>
<td>388.17</td>
</tr>
</tbody>
</table>

The average indebtedness of MSC student loan borrowers is $17,340. Students borrowing this average amount will pay approximately $200.00 per month on the standard repayment plan for 120 months and pay approximately $6,606.00 in interest.

**Having Trouble Making Payments?**

If you are unable to make full payments as required by your repayment plan, you may want to discuss changing repayment plans with your loan servicer. You may also qualify for a deferment or forbearance that allows you to temporarily postpone making loan
payments. You MUST continue making payments until you have been notified by the loan servicer that a deferment or forbearance has been approved. Contact your loan servicer to apply for a deferment or forbearance.

**Deferments** are periods in which repayment of the principal balance is temporarily postponed if certain requirements are met. During a deferment, the federal government pays the interest on subsidized loans. Deferment conditions include:

- Enrolled at least half-time at an eligible postsecondary school. Eligible schools are those approved to participate in the federal student aid programs.
- Study in an approved graduate fellowship program or in an approved rehabilitation training program for the disabled.
- Unable to find full-time employment (for up to three years).
- Economic hardship (includes Peace Corps Service) for up to three years.
- A member of the National Guard or other reserve component of the U. S. Armed Forces (current or retired) who is called or ordered to active duty while enrolled at least half-time at an eligible school, or within six months of having been enrolled at least half-time (eligible for a deferment during the 13 months following the conclusion of the active duty service, or until the borrower returns to enrolled student status on at least a half-time basis, whichever is earlier).
- While borrower is on active duty during a war or other military operation or national emergency and if the borrower was serving on or after October 1, 2007 (eligible for a deferment for an additional 180-day period following the demobilization date for the qualifying service).

Borrowers who received a FFEL program loan before July 1, 1993, may have additional deferment options available and should contact the loan servicer for more information.

**Forbearance** allows you to postpone or reduce your monthly payment amount for a limited and specific period of time if you are temporarily unable to make the scheduled loan payments for reasons including, but not limited to, financial hardship or illness. You are responsible for paying the interest that accrues during the forbearance on all types of loans, including subsidized loans.

**Delinquency and Default**

If you do not make the full payments on time, you will become delinquent on your student loan. If you are having trouble making your payments on time, you should contact your loan servicer to discuss other repayment plans, deferment options, or forbearance. If you fail to repay your loan according to the terms of the promissory note, and that failure persists for at least 270 days, you default on your student loan. Loan default has serious consequences such as:

- Your entire loan balance (principal and interest) will be due in full immediately.
- Your college records may be placed on hold.
- You will lose eligibility for deferments.
- You won’t be eligible for additional federal student aid.
- Your account may be turned over to a collection agency and you will have to pay additional charges, late fees and collection costs, all of which become part of your debt.
- Your credit rating will be damaged because defaulted loans are reported to national credit bureaus.
- You will have difficulty qualifying for credit cards, a car loan, a mortgage, or renting an apartment.
- Your federal and state income tax refunds can be withheld and applied to student loan debt.
- You may have a portion of your wages garnished (withheld).
- You may not be able to obtain a professional license or get hired by an employer that performs credit checks.

**How to be a Responsible Borrower**

- Make a budget and stick with it. Develop a budget that includes items like rent, car payments, utility bills, food, clothing, insurance, entertainment, loan payments, etc. Make sure your income is sufficient to meet your expenses. If not, you will need to cut expenses or contact your loan holder to discuss other repayment plans, deferment or forbearance options.
Know your rights and responsibilities as a borrower.
If you don’t understand something, call your loan holder or loan servicer or your financial aid office.
Keep all student loan documents in a file.
Open all your mail and read everything pertaining to your student loans.
Keep in contact with your loan holder or loan servicer and keep them informed of your current address, phone number, and other pertinent information.
Make all regularly scheduled payments by the due date.
Contact your loan holder or loan servicer for help if you have difficulty making payments to determine what options are available to help you.

Loan Consolidation

A consolidation loan may help make loan payments more manageable by combining several federal student loans into one new loan with one monthly payment. You need to apply for loan consolidation and choose an available repayment plan. Depending on the amount of your debt, standard and graduated repayment plans have 10- to 30-year repayment periods. The interest rate for consolidation loans is a fixed rate based on the weighted average of the interest rates on all of the loans you consolidate, rounded up to the nearest one-eighth of 1% not to exceed 8.35%.

The benefits to loan consolidation are that it can lower your monthly payment by increasing the repayment period and that it can allow you to make a single loan payment to one lender. The downside to loan consolidation is that it will increase the total amount you repay over the life of your loan and that you may lose certain benefits that were offered on the original loans such as cancellation benefits and interest subsidies.

Discharge and Forgiveness

There are a few situations in which your loan may be discharged and your repayment obligation cancelled or forgiven such as:

- You die.
- You become totally and permanently disabled and meet certain additional requirements.
- Your loan is discharged in bankruptcy. Federal student loans are not automatically discharged in bankruptcy. You must prove to the bankruptcy court that repaying the loan would cause undue hardship.
- You are unable to complete your program of study due to the closing of your school.
- Your school falsely certified your loan eligibility.
- A loan in your name was falsely certified as a result of a crime of identity theft.
- Your school failed to refund required loan funds to your lender on your behalf.

A portion of any Direct or FFEL student loan received after October 1, 1998 may be forgiven under the Teacher Loan Forgiveness Program. To qualify, you must teach full-time for five consecutive years in certain low-income elementary or secondary schools or low-income educational service agency and meet certain other qualifications. In addition, you must not have had an outstanding balance on a Direct or FFEL student loan as of October 1, 1998 or as of the date you obtain a loan after October 1, 1998.

A Public Service Loan Forgiveness Program is also available and will forgive or cancel the remaining balance due on your eligible Direct Loans after you have made 120 payment on those loans (after October 1, 2007) under certain repayment plans while you are employed in certain public service jobs. You may consolidate your FFEL loans into the Direct Loan Program to take advantage of the Public Service Loan Forgiveness Program.

Tax Benefits for Education

There are many tax credits, deductions and savings plans available to taxpayers to assist with the expense of higher education.

- A tax credit reduces the amount of income tax you may have to pay and include:
  - American Opportunity Credit
  - Hope Tax Credit
  - Lifetime Learning Credit
• A deduction reduces the amount of your income that is subject to tax, thus generally reducing the amount of tax you may have to pay and include:
  o College Tuition and Fees Deduction
  o Student Loan Interest Deduction

You should contact a tax advisor or visit www.irs.gov for detailed information on tax credits, deductions or other tax benefits for postsecondary students.

Office of the Ombudsman

You should always contact your loan holder/servicer to try and resolve any problems regarding your student loans. You may also contact your school for assistance. If you are unable to resolve the problem, you may also contact the Federal Student Aid Ombudsman for assistance. The FSA Ombudsman works with federal student loan borrowers to resolve loan disputes or problems from an impartial, independent viewpoint. The FSA Ombudsman may be reached at:

Office of the Ombudsman
U. S. Department of Education
830 First Street NE
4th Floor UCP-3/MS 5144
Washington, DC 20202-5144
Toll-free phone: (877) 557-2575
Internet: fsahelp.ed.gov or ombudsman.ed.gov

Other Resources

Federal Student Aid offers several publications to help you understand the financial aid process. Two publications that may help you manage your federal student loans are Funding Education Beyond High School – The Guide to Federal Student Aid and Your Federal Student Loans – Learn the Basics and Manage Your Debt. To request a copy, download an electronic version or view a complete list of publications, visit www.studentaid.ed.gov and click on “Publications” from the “Tools and Resources” link.

Additional resources that you may find helpful are:

<table>
<thead>
<tr>
<th>Resource</th>
<th>Web Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Consolidation Loans</td>
<td><a href="http://www.loanconsolidation.ed.gov">www.loanconsolidation.ed.gov</a></td>
</tr>
<tr>
<td>PIN Site</td>
<td><a href="http://www.pin.ed.gov">www.pin.ed.gov</a></td>
</tr>
<tr>
<td>TEACH Grant Recipients</td>
<td><a href="https://teach-ats.ed.gov">https://teach-ats.ed.gov</a></td>
</tr>
<tr>
<td>Public Service Loan Forgiveness</td>
<td><a href="http://www.studentaid.ed.gov">www.studentaid.ed.gov</a></td>
</tr>
<tr>
<td>Income Based Repayment</td>
<td><a href="http://www.studentaid.ed.gov">www.studentaid.ed.gov</a></td>
</tr>
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<td>NSLDS (National Student Loan Database)</td>
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