

CHECKLIST: Managing Your Student Loan Debt

Student loans are generally not discharged in bankruptcy. However, there are things that you can do to help manage your student loan debt. There are also things that you will want to avoid, if possible. Use this checklist to start a plan for managing this debt.

Yes/no

- ___ **Make your regular monthly payments, if at all possible.** You will pay less interest, avoid refinancing and collection fees, and have your student loans paid off sooner. A standard repayment schedule is usually a maximum of ten years.

- ___ **If you can't make your monthly payments under your standard repayment schedule, an alternative is a *graduated payment plan*.** In a graduated payment plan, your payments will start out low and increase every couple of years. Some lenders will allow you to pay interest only for a couple of years, and then make regular principal and interest payments. A graduated payment plan may be a good option for you if you are just starting your career and you anticipate that your income will increase in future years. The term for graduated payment plans depends on the amount of the loan, but can be from ten to thirty years

- ___ **Another option is an *extended payment plan*.** Such a plan permits you to make payments over a period of twelve to thirty years, depending on your loan amount. In an extended payment plan, your monthly payment is usually lower than it would be under the standard plan. Of course, you will pay more interest because the repayment term is longer.

- ___ **If your income is very low, or if you can't count on your source of income, an *"income-based repayment"* plan may be an appropriate alternative.** With an income based repayment plan, your monthly payments will increase or decrease based on your income. With an income based repayment plan, your payment will be recalculated each year based on your annual income.

- ___ **You can also *"consolidate"* your various student loans into one loan.** Repayment terms for consolidation loans are usually from twelve to thirty years.

- ___ **Don't default on your loans!** Not paying (defaulting) on your student loans is costly. The student loan guarantee agencies usually add a "collection fee" of 25 percent to the principal, interest, and penalties that you already owe. In addition, collection agencies may charge a commission of 25 percent or more. That commission is also added to

your outstanding balance. Also, one of the ways that the Department of Education, the guarantee agencies, and collection agencies working for them can collect your student loans if they are in default is to have the IRS intercept your tax refund checks. Another way that the Department of Education and guarantee agencies can collect your defaulted student loans is to garnish your wages. Up to 10 percent of your wages can be garnished, and (unlike other creditors) your student loan creditor does not have to obtain a judgment first

— **If you can't pay your student loans, it may be possible to obtain a *forbearance, deferment, or cancellation*.** Cancellation (meaning you don't have to repay them) of your student loans is available in limited situations, like total disability or death. You may qualify for deferment (meaning you can postpone making payments) if you are unemployed, or enrolled in school or in the military. Forbearance means that the lender allows you to stop making payments for a period of time, however, the interest always continues to accrue on the outstanding balance.

— **You might get to discharge your loans in bankruptcy after all.** It is difficult to obtain a discharge of your student loans in bankruptcy. However, it may be possible to discharge your student loans if you can convince the bankruptcy court that not discharging the student loans would create an "undue hardship" on you.