Student Loan SOLUTIONS

BY Dorothy G Bunce, Esq of A Fresh Start Law

Introduction.

Graduating from college is often bittersweet. Although a diploma marks your success after years of learning and hard work, it's not the only thing you take with you off the graduation stage. At the end of your college years, chances are you racked up some debt. Once you look at the amount, you will see that the loans you took out semester after semester are unaffordable.

These debts can turn your hopeful future into one of gloom and doom. So forget about buying a home or even a new car. For the foreseeable future, a large part of every paycheck will go to pay off that debt.

About one in four Americans have student loans. The average student loan is $37,000. No surprise, student loan debt is the second-largest consumer debt in the United States, totaling $1.56 trillion. But even with so many student loans, these debts are under-researched and, thanks to conflicting information found online and in financial journals, often misunderstood.

Unfortunately, many "experts" writing about student loans have a limited perspective, or even a bias. These people may know about other financial topics and could have a background in banking, consumer litigation, or investment strategies. But this expertise does not make them qualified to provide advice about student loans. The experience many of these experts have with student loans amounts to little or none. But experience is vital because student loans have complicated rules that make them entirely different from other debts. Financial "experts" may assume that student loan debt is similar to a car loan or credit card bill before offering poor advice, oblivious to realistic solutions.

These financial gurus may also have a limited mindset. They may see making reduced payments as never paying off the debt. They often assume making a smaller payment on a student loan is the same as making a minimum payment on a credit card. Regrettably, this advice isn't accurate for student loans. Only student loans offer loan forgiveness programs. Credit cards do not.

Suggesting that bankruptcy can or cannot eliminate student loan debt is also misleading. Although few people qualify to eliminate their student loan debts in bankruptcy, some people will be eligible. However, bankruptcy is often an unreliable and costly way to fix student loans. Other financial advice, such as making higher payments to pay off the debt early, also makes little sense. Paying more on a student loan creates a hardship with no real benefit. Why choose a costly option if there is an easier and less expensive solution?

I have searched for ways to solve problem student loans. Finally, I found the answer after becoming a friend with an attorney working for a large student debt servicer. After having a conversation about our dogs, when we got down to business, I commented, "there has got to be a better way." She laughed and said, "oh, yes, there is."

In this e-book, I explain realistic, affordable, and effective ways to repay your student loans. The solutions I offer don't require you to engage in costly litigation. And you don't have to be impoverished to take advantage of these options, either. You can get into a program in which you pay what you can afford. If $0 is all you can afford, there are programs where $0 is all you pay.

Now I can hear you scoffing - "if I am in a wheelchair and have no income, then I can get that $0 a month payment, right?" Have faith! I didn't establish my reputation by promising results I can't fulfill. If you are a single parent and earn less than $3,000 a month, you might be eligible for a payment of $0/month. If you earn under $5,000 a month, you might only have to pay $100 a month.

Whether you want to investigate your options on your own or hire an attorney to recommend a specific solution, this e-book has the information you need to solve your student debt problems.

Student Loans: The Basics.

Few people have only one student loan. Typically, someone gets a new student loan each semester. Your loans might be a mixture of public and private loans. The distinction matters when considering repayment options. Public loans are guaranteed by the United States or by a state, meaning that if you don't repay the loan, the government will. On the other hand, the lender can only look to the parties that signed the loan to get paid with a private loan.

You probably have a federally guaranteed loan if you enrolled in an accredited college or university for an undergraduate degree. However, suppose you attended a trade school, another nonacademic institution, or went to graduate school. In that case, your loan could be either public or private.

Knowing what type of student loan you have is crucial. The US government has established programs to encourage repayment by making repayment affordable for those that properly apply and toe the line. However, because the government is on the hook if you don't pay, they offer several options to require you to pay —and severe penalties if you don't.

These penalties can include hefty fines that increase your loan by up to 30 percent. Other penalties involve locking you out of repayment options that would otherwise save you money in the long run. Implementing these options happens according to federal laws. As with any government program, selecting and enrolling in the better options may be unnecessarily complicated. However, the worst thing you can do is bury your head in the sand and ignore the debt. Just as you can't run from the IRS, you can't run from a student loan debt.

But if you have private student loans, no standard programs exist to adjust repaying these debts based on need or personal circumstances. So while private negotiation may achieve results, the results are unpredictable. Moreover, because the lender is a private institution, the lender's only incentive is profit.

A Fresh Start has solutions to both types of student loans. But the options for each require different strategies. So your first step is to determine if your loans are public or private.

The Hidden Cost of Student Loans.

Student loans function differently than other debts. Because students tend to be young without any credit history, a lender takes a high chance by giving them money to pay for education, which is intangible. You can't repossess a degree in history! Most students don't have a job, either. And, of course, many borrowers are entering into their first financial transaction. So they may not see any problem with the terms of their student loans. And if you need a loan to attend school, there are no other alternatives. But you may pay a high price by taking out student loans since the terms can be harsh.

Another often-overlooked issue with a student loan is that interest can accumulate even if no payments are due. For example, interest may accrue even while you're attending school! Interest will increase your balance, even if a loan is in deferment or forbearance.

Sometimes portions of a loan are disguised as "prepaid" fees. For example, while your loan paperwork may say that your loan covers tuition and educational expenses, the lender might pocket some of that money as a "cost." On a $10,000 loan, the lender may have only paid out $8,800, with the remaining $1,200 disguised as an extra fee.

The interest on a typical undergraduate student loan (2021 values) is 4.45%. The interest rate for a graduate or professional school is much higher, 6.08% to 7.08%. While this interest is less than you would pay for a credit card, it still can add up quickly. For example, with a yearly loan of $10,000 each year, in the first year, the interest you owe might be $460. Even with the rate remaining the same, in year five, the interest on this one loan could add up to $2,518. As a student takes out new loans every semester, each subsequent semester, every loan also accumulates interest, piling on the debt.

As a result, someone making regular monthly payments after paying for ten years may owe more than they borrowed. Of course, no one has cheated them, and all their payments are credited. But this is how the loan business works. Any delay in making payment almost always benefits the lender. Because of interest costs, the balance owed on the debt increases.

For this reason, even if you can borrow to pay your tuition, books, and living expenses, borrow as little as you need. Unless you have a scholarship or an established education savings account, attending a pricey school can leave you with a significant financial burden.

The Three D's

While there are options to reduce your student debt burden, if any of your loans are in the *"dreaded D group,"* this may prevent you from utilizing them. The "*dreaded D group"* refers to loans that have been deferred, delinquent, or are in default.

Deferred

A deferred loan is one you are not presently required to pay. The obligation to pay is in a "grace period." You usually only have to apply it to get a deferment, and the application is usually simple. Reasons for getting deferment may include continuing to attend school or being unemployed. But deferment only lasts for a limited amount of time, usually 24 months or less. When you are no longer eligible for deferment, you need to pay your student loans.

Forbearance is a similar program in which you don't need to pay your student loan. With forbearance, you typically must demonstrate a hardship that prevents you from repaying. Not having a job, a medical problem, or modest earnings are typical reasons to obtain forbearance. But instead of forbearance, a better choice would be an income-driven repayment.

Delinquent

If you have run out of time available to defer your loan payments, and don't pay, after thirty days, your loan is labeled "delinquent." As a result, your credit score will take a severe hit. A low credit score is terrible, and that pain is supposed to motivate you into doing something. Unfortunately, many people have no idea what to do in this situation. It is unlikely that anyone is calling to collect this debt. As a result, many people do nothing, which is the worst possible choice.

Luckily, there are resources to help delinquent borrowers. At AFS, we can help resolve this situation. But appreciate that there may be a limited window of time for outside aid to make a difference. If you are delinquent, you need help immediately.

Default

If you do nothing to resolve your delinquent loan, your student loan will get a negative mark. This is the third and final D - Default. Like having a baby, it happens nine months after your loan becomes delinquent. Once it gets this final mark, there are many significant repercussions, including:

· *Collection fees.* Federal law allows a defaulted loan to be increased by as much as 30 percent for collection costs. That means a $50,000 student loan can jump to $65,000 in a single day. And that estimated balance does not include late charges and interest added to the loan.

· *Lockouts.* If this happens, you can no longer apply for the programs to reduce your student loan payments.

· *Poor credit.* When you default on any loan, it damages your credit score, making it tough to finance a car or even rent an apartment. You also can become ineligible for future student loans.

· *No help in bankruptcy.* Unless you or one of your children are sitting in a wheelchair or are otherwise seriously disabled, bankruptcy isn't an effective way to eliminate student loan debt. While a chapter 13 bankruptcy could manage repayment of your student loan debt, this option is costly and has a limited value.

· *No access to academic records.* If you need your educational transcripts to apply for a professional license or job, forget about it!!

· *Wage Garnishment and asset seizure.* The most challenging result of a defaulted student loan is a wage garnishment. Your student loan servicer can garnish up to 15 percent of your pay and direct the IRS to divert all your tax refund payments to the student loan company. Other vulnerable assets can be "intercepted" by the student loan servicer, such as social security or military benefits. The lender can also wipe out your bank balance, even without court proceedings or allowing you to defend yourself. Likewise, your real estate and your retirement account can be affected by a lien for these loans. Since your loan is federal debt, the usual debt collection rules don't apply.

You might think, *Well, that isn't all bad!* At least my student loan will start getting paid. Unfortunately, you'd be mistaken. Most of the money taken will not go toward reducing your loan balance but instead pay collection costs.

In our hypothetical $50,000 loan, there is the initial $15,000 collection fee. However, other costs also get added with a garnishment, such as legal fees and court expenses. There are also fees to implement a garnishment also to intercept your tax refunds. These fees soon add up to a lot of money— money you need to survive! Because it is so easy to avoid paying a public student loan, many people are stunned at what happens when the loan goes bad.

Federal law authorizes this policy. While there are ways to get out of default without catching up on back payments, these techniques are complicated and not entirely practical. Most of all, this process is expensive. "You snooze; you lose."

The Bottom Line.

The time to seek help with a student loan debt is before you go into default. Consult an attorney if you need help with the application process. Income-driven repayment programs are complicated. These programs change all the time, and professional help can be invaluable.

Student Loan Traps.

Once you finish school, you have a grace period of four to six months before you begin paying your student loan. Lenders assume you will have found a job within that time.

For example, if you obtained a two-year degree at a local community college, you may have borrowed $5,000 each semester. The interest might be 4.45%. The typical cost to repay these loans might be $210/month for ten years.

If you can't find employment after graduating, paying $210 per month might be impossible. It is certainly not your fault if jobs are unavailable or that the only available jobs pay so little.

With looming debt payments and the need to support a family, some graduates, including those with professional degrees, accept low-paying positions that don't utilize their education. Students might even continue with the job they did while in school. Only a lucky few get out of school and get a professional position earning the income they expected.

When someone can't pay their student loan, they make the easy choice - to do absolutely nothing. The problem with this option is that years can go by without anything happening. Complacency sets in, and a person can start to believe that nothing bad will happen until it does happen.

Once the collection division moves on a student loan, the government uses draconian collection methods. The lender can garnish wages. Other government money, such as a tax refund, social security, stimulus money, or other benefits, can be intercepted and applied to this debt. Plus, you usually are blocked from the programs that could help you afford the student loan. The only way to get back on track is by completing rehabilitation.

The Dangerous Advice of Student Loan Companies.

Although they exist to collect public loans, student loan servicers are not part of the government. Therefore, these companies are not providing a public service. They only exist to make money off their business, collecting student loans. Therefore, be wary of any advice they give you. Like any other business, student loan companies are concerned first and foremost with making money.

When you speak to someone from one of these companies, you are not discussing your problems with a trained financial advisor. The person you speak with at your student loan servicer may not even have a high school diploma. But that doesn't matter to these companies. These representatives usually only have a superficial understanding of student loan programs. Instead, they follow a script that increases their employer's earnings while convincing borrowers that this profit-driven advice is sound. For borrowers who don't know better, this advice can be catastrophic.

A Debt Collector's "Code of Ethics" is Limited.

Debt collectors do have some ethics. But you can't expect to look to them for important legal advice. Their ethics are:

· Don't make illegal threats.
· Be polite, but only say things that will make money for the company.
· Disclosing the truth to a borrower is neither required nor recommended.

It is foolish to expect a lender or a debt collector to offer quality advice about the most economical ways to repay a debt. However, even borrowers with finance degrees may take their bad advice without a second thought. When it is your debt, you are vulnerable. At *A Fresh Start Law*, we believe you need an experienced legal team to look out for you. The result will save you money and solve your student loan problems because that is what we do at *A Fresh Start Law*.

Cosigners.

When you apply for a student loan, the lender might ask for a cosigner. A cosigner is a second person who also agrees to repay the loan. Bringing in a cosigner increases the chance that the lender can collect from someone. A lender might routinely ask for a cosigner, even if it isn't required. A cosigner may be required if 1) the student already has massive student loans, or 2) the school has problems with their students defaulting or not completing their courses.

If possible, avoid bringing in a cosigner. Both the student and the consigner are responsible for paying the loan. Cosigning damages the credit of both. The cosigner may assume the lender will seek payment from the student first. But this may not be the case. While it is possible to settle or eliminate a student loan with a cosigner, it is problematic. It's best to avoid this problem if you can.

Postponing Payments.

If you struggle to make your loan payments, deferring your loan or going into forbearance may seem like the best answer. You indeed pay nothing while in either program. Unfortunately, these programs are usually not in your best interests. Nevertheless, servicers/collectors often recommend them. Borrowers ought to ask why a lender would make this suggestion. The answer is that doing this makes your loan balance increase rapidly, resulting in more profit for the lender.

With either deferment or forbearance, every month you don't make a payment, the balance you owe on your loan increases as interest accrues. The interest alone may be more than a monthly loan payment. Even if you cannot afford a full loan payment, you could be whittling away your loan requirements through an income-based or income-drive repayment program.

Real Solutions to Your Public Student Loans.

There are several ways to make student loan payments more affordable. We almost always recommend one of the many income-based or income-driven programs. Both programs reduce your monthly payments by basing your payment on a percentage of your income. In many programs, after making all the required payments, you may qualify for forgiveness of any remaining balance. Thus, you potentially save tens of thousands of dollars.

Unfortunately, getting into the correct program is often unnecessarily complicated. These programs have idiotic names like PAYE, REPAYE, ICR, and PSLF. Participation is limited based on factors like being a "new borrower," having a specific type of federal loan, or working for an employer providing a "public service." Unfortunately, the collection company may tell you that you don't qualify for a program even if you really are eligible.

While many people insist their only goal is to get the lowest possible monthly payment, this desire could be shortsighted. By paying a few more dollars more each month, could you get substantial loan forgiveness?

You might have heard stories where a borrower believed they had enrolled in a repayment plan with loan forgiveness, only to discover later they didn't qualify. Everyone blames either the lender or calls the programs *scams*.

While this is an interesting story, the truth is that these disappointed borrowers failed to satisfy all of the requirements of debt forgiveness. You won't win the lottery if your ticket is one number off. If you enter into a loan forgiveness program, expect to fulfill every obligation of that program.

Unfortunately, in one of the cases most widely reported, a debt forgiveness program *didn't even exist when the borrower enrolled.* In another case, the borrower claimed that a debt forgiveness program kicked him out due to a *minor mistake*. But not turning in annual income information (which only requires an on-time copy of your tax return) is not a minor mistake. Providing a tax return showing your income every year is a *crucial* requirement of these programs. It is even in the name of the program!

So if keeping your payments low and saving hundreds of dollars each month requires you to turn in a tax return by April 15 each year, can you remember to do that? After all, to be fair, isn't it reasonable to require proof that your income is low?

How debt forgiveness works.

Income-driven repayment programs promise you enormous savings. But, as with every government program, you must comply with all of the terms. Uncle Sam is like Santa Claus used to be. If you are naughty, even once, you'll end up with only a lump of coal in your stocking, which means that your student loan debt won't be forgiven.

What Goes Wrong with Income-Based Programs.

It should be no surprise that a critical requirement of these programs requires you to update your income each year. Your lender requires copies of your tax returns every year. If you don't do this one thing, you will be kicked out of this program. Your required payment will return to whatever the standard payment was, and your eligibility for debt forgiveness will end.

Another vital requirement in every income-based repayment program is every payment must be "on-time." A payment received after the due date will not count as a "qualified payment" toward the required number of payments. Although the lender will apply the amount of late payments, these payments are beside the point. In income-based repayment, *only the number of on-time payments count towards achieving the goal of loan forgiveness*. Debt-forgiveness programs don't allow *any* deviation. You must make the specified number of payments. Payments not made on time won't count toward that requirement. No exceptions, no excuses! It is a fabulous deal, but the requirements are strict.

Benefits of Income-Based Repayment.

For someone who has recently left school, the monthly payment of an income-based repayment program could be modest. As your salary increases, your student loan payments will also go up. For example, a teacher, nurse, or lawyer might have student loans of $150,000. As an example, the payment on these debts might be $1,000 a month.

Fresh out of school and lacking work experience, the graduate may takes a job that pays $40,000 a year. With this salary, paying $1,000 per month is impossible. But in an income-driven repayment, the monthly payment might be under $100.

These modest payments will continue until your income increases. Now in two years, your salary may increase to $50,000 a year. Of course, your student payment will also go up. But it probably won't increase very much. In the meantime, you have knocked off two years of your required payments.

Every year these payments are less than $1,000 per month, the borrower saves money. In addition, the borrower will earn a positive credit score by being responsible and paying their debts on time.

But by doing nothing, the loan balance increases by $650 the first month. It will continue to increase by a slightly more significant amount every following month. In a couple of years, the loan balance will be growing by more than $1,000 a month. That number only reflects interest costs. It does not include penalties or costs due to losing credit by not paying.

Public-Service Options.

Some income-based student loan programs provide for fewer payments over less time. Those programs can cut the number of required payments in half without increasing the payment amount. But you have to apply and qualify for them, and pay attention to and not deviate from their strict requirements.

With a public-service option, the borrower could repay their student loan in as little as ten years. The payment may be no different than paying for 20 years. Qualifying does require you to have a particular job or work for certain employers. Your job might be with the government or with a nonprofit. These workers may be eligible for an additional half-off of their student loan debt.

Rehabilitation.

Income-based repayment can be a great way to get on top of your student loan debt. But if you've fallen behind, there may be trouble. If your student loans are in default, you may need to go into rehabilitation.

Rehabilitating your student loans is not as bad as going to prison or joining a twelve-step program. But it is a lot harder than putting on your "I'm sorry" face and making a few back payments. You may need legal help. That's why A Fresh Start Law is here. We can look for loopholes to help you avoid rehab. If none are available, we can navigate you through this unpleasant process.

Rehab requires you to voluntarily pay your student loan while having your paycheck garnished. Rehab might last more than a year. Once you complete rehab, you will be eligible for income-based repayment options you should have looked at years earlier.

Bad Schools and Closed Schools.

Some student loan problems involve bad schools that didn't provide a quality education. The schools may even have closed before the student was able to complete their courses.

Help with a student loan involving a bad or closed school is usually only available through litigation. Litigation is expensive and time-consuming. Students can join together to bring in a class-action lawsuit to address the problems. In this situation, the clear choice is to join the class and share the cost of the legal fees.

Due to the high cost, at *A Fresh Start Law*, we do not handle litigation. When we receive calls regarding a bad or closed school, it is usually too late to find an inexpensive solution.

Take Control of Your Financial Future.

At *A Fresh Start* we are familiar with income-based and income-drive repayment programs. We also understand the hazards that can get you kicked out of these programs. We also can help you avoid rehab or minimize its impact.

As a law firm, *A Fresh Start* understands which programs are best for you in the long run, not just a quick band-aid fix. We will also advise you on avoiding default or rehab if something has prevented you from making your student loan payments.

If you hire our law firm, we have an ethical obligation to represent your interests and tell you the truth. An inexpensive option we offer is to research the status of loans and recommend the best program for you. Or, for not much more, we can walk you through enrolling in the best program even navigate your first renewal.

Opt for A Fresh Start.

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Our Process.

Once you give us the information about your student loan, we will investigate and recommend solutions. Information you never considered important might affect your results. For this reason, it is crucial to carefully follow our instructions for documents and information about accessing your student loan account online.

We will need your written authorization to access your student loan account. If you know who is servicing or collecting your student loan, go to their website and log into your account. If you need to update your login information or password, do so. With your login details, we can quickly access your account online. We can even get you an estimate of your initial monthly payment.

No clue who holds your debts? With a copy of your credit report, we can determine who holds your student loan debt and what you need to do to resolve it.

Other Solutions.

Sometimes, you may have dodged a bullet even if you have done everything wrong. There might be other options to resolve your student loan. For example, the "statute of limitations may bar your obligation to repay this loan." You might be able to refinance your student loan. Or there might be other defenses to your student loans that don't require litigation.

To Get Started.

Getting started requires you to prepare before calling any student loan attorney. If your student loans are all public, then having your student loan account login is crucial. First, go to the website https://nslds.ed.gov/npas/index.htm and attempt to login. If your user ID is invalid or your password doesn't work, ask for help until you retrieve the information or create a new account.

If you aren't sure if your loans are public or private, just get a copy of your credit report. Then meet with us, either by phone or in-person, at our Las Vegas office. We will prepare the legal documents to access your account and give you an idea of what we can accomplish and the cost.

We will be looking forward to helping you obtain A Fresh Start by solving your student loan debts!

Student Loan Solutions

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