Student Loan

Debt

Getting In Smart, Getting Out Painlessly

by Robert Farrington of The College Investor

http://thecollegeinvestor.com

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Foreword

I hate student loan debt – I hate it with a passion. However, for most people, they will need it to get the education they need to be successful. But just because you need something doesn't mean you have to be ignorant about how it works.

That is my goal with this eBook – to show you how to get into a student loan smart, and how to get out of a student loan with as little pain as possible.

This eBook is a guide, and the purpose of the guide is to educate you and guide you. It is NOT a system and it will not help you magically pay for school or get out of debt. It will, however, take you through the process from start to finish put knowledge in your head, and give you tools to battle the student loan machine.

If I can help just one person learn one thing about student loans that they didn't know, the time put into this eBook will have been totally worth it.

To all my subscribers, followers, and friends out there, old and new, thank you for the gift of your support. I hope this free guide can begin to repay you for the time and attention you have given me. Here's to your continued success!

If at any point while reading this guide you have any questions, please don't hesitate to contact me. You can reach me on Twitter @collegeinvestin, on my Facebook Page, or in private via email at Robert@thecollegeinvestor.com. Even if you don't have any questions, I'd love for you to come by and say hello!

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Getting a Student Loan

What You Should Know Going In

Getting a student loan should be a difficult decision for people, but it is usually not. A student loan is like every other kind of debt in many ways, but there are subtle differences that make it more dangerous than most debt. It is important to really take the decision of getting a student loan with the same level of care that you would with a car loan or a mortgage. Is this something you really want to be paying for 10 years or more?

With all debt, you should really understand what you are getting into. First, a student loan is just that: a loan. This means that you will owe someone money. In some cases it is a bank, in others it could be the US Government. Either way, you must pay it back. Second, as with all debt, it accrues interest. This means that you not only have to pay back what you borrow, but you have to pay back more than you borrow, and that amount increases the longer you borrow. Think of it like a reverse savings account, where instead of earning money, you are accruing more debt.

So, what are you borrowing against? Most of the debt you are used to is secured against something – you get a car loan and you are borrowing against your car; a mortgage is a loan against your house. If you don't pay these types of loans, they simply repossess your car or house.

Every loan should have the following details readily available:

- Interest Rate
- Borrower Rewards
- Fees
- Borrowing Limits
- Disbursement Policy
- Repayment Policy
- Cancellation Policy

With a student loan, you are borrowing against your personal future. It is assumed that by getting an education, you will earn more money. With that additional money, you should have no problem paying off the student loan.

That is a pretty big gamble for banks, or even the government to take. Remember, these folks aren't here to better your life, they are here to better themselves. So, to prevent you from skipping out on your student loans, they made them nearly impossible to get rid of. By this, I mean that a student loan has a lot of restrictions that make it nearly impossible to discharge in bankruptcy. You pretty much have to die or be permanently disabled to get out of paying your student loan. If you can't afford it, and try to skip out on paying it, they will garnish your wages. Like I mentioned above, you borrowed against your future earnings with a student loan, so that is what they will come after if you don't pay.

It is also important to look at the facts and figures going into a student loan. To start, you usually must sign a Master Promissory Note (MPN), which is a legal document in which you promise to repay your loan and any accrued interest and fees. This is usually available through your school's financial aid office, but it is also available from the Department of Education. If you choose to go with a private lender, you must usually sign an additional promissory note. This note should also explain the terms and conditions of your loan. In most cases, you only need to sign one MPN, and it will be good for the duration of your study at the school.

Loan Details

Interest Rate: The interest rate of a loan is how much it will cost you to borrow the money as a percent of the loan. It is calculated 2 ways: simple or compound.

Simple interest takes your loan amount (say $10,000), and calculates the interest 1 time. If your interest rate is 5%, your total interest on the loan will be $500. Compound interest, which is much more common for student loans, charges interest for the duration of the loan, calculated annually. This is where it gets scary. If you borrow the same amount ($10,000), at the same rate (5%), but it compounds annually and you make the minimum payments (which would be about $106/mo), your total interest paid over the course of the loan jumps to$2,728.

It is also important to note that you begin paying interest on the day you start to borrow the money, not just once repayment starts. This is usually the beginning of the quarter or semester. Most student loans let you defer the interest payments until you graduate, and then add it into your total loan amount, but you also have the option of paying the interest as it accrues while you are in school, which can save you a little bit of money down the road.

It is also important to note that federal student loan rates are set by the government, which you can see in the chart below. I will highlight the differences between federal and private, and subsidized versus unsubsidized a little later.

Academic Year	Subsidized Rates	Unsubsidized/Graduate Rates
2010-11	4.50%	6.80%
2011-12	**3.40%**	**6.80%**
2012-13	6.80%	6.80%

Borrower Rewards: Along with the interest rate, borrowers should carefully look at the rewards that are offered with their student loan. This doesn't usually apply until repayment, but it can save some money by offering incentives such as interest rate reductions or cash-back for doing certain actions. These actions could be making one-time payments, signing up for paperless statement, or enrolling in the loan servicer's automatic debit program.

Fees: Currently, all federal student loan programs have a 1% fee that covers origination costs and the potential for default. The loan fee is usually deducted from the loan disbursement. As a result, it is extremely important that the financial aid office submit the amount to the lender that includes this fee, so that you pay the correct amount to the school. Most schools are aware of this and do this for you.

Borrowing Limits: There are limits to how much you can borrow from the federal government, both annually and in total over the course of your life. The actual amount you can borrow depends on the year you are in school. It goes up with time in school, since it is believed that your risk of finishing school drops with each additional year you are in. Once again, you are borrowing against your future earnings, so lenders calculate risk based on school completion (freshman are the most likely to drop out, followed by sophomores, etc.). Furthermore, there are limits on how much of your debt can be subsidized by the government.

It is important to note that these limits apply only to federal Stafford Loans. It is also important to note that graduate and professional students enrolled in health care programs (such as becoming a doctor) may receive additional loan amounts beyond these limits. Being a doctor is expensive!

Finally, you can see that going to graduate school gets you the highest limit, as this type of education usually has a good payoff, and the borrowers who pursue this type of education usually have the ability to pay back more debt.

Year	Dependent Undergraduate Student (except students whose parents are unable to obtain PLUS Loans)	Independent Undergraduate Student (and dependent students whose parents are unable to obtain PLUS Loans)	Graduate and Professional Degree Student
First Year	$5,500—No more than $3,500 of this amount may be in subsidized loans.	$9,500—No more than $3,500 of this amount may be in subsidized loans.	$20,500—No more than $8,500 of this amount may be in subsidized loans.
Second Year	$6,500—No more than $4,500 of this amount may be in subsidized loans.	$10,500—No more than $4,500 of this amount may be in subsidized loans.	
Third and Beyond (each year)	$7,500—No more than $5,500 of this amount may be in subsidized loans.	$12,500—No more than $5,500 of this amount may be in subsidized loans.	
Maximum Total Debt from Stafford Loans When You Graduate (aggregate loan limits)	$31,000—No more than $23,000 of this amount may be in subsidized loans.	$57,500—No more than $23,000 of this amount may be in subsidized loans.	$138,500—No more than $65,500 of this amount may be in subsidized loans. The graduate debt limit includes Stafford Loans received for undergraduate study.

Disbursement Policy: Generally, student loan payments are paid directly to the school, at which point they cover all tuition and fees, then room and board payable to the school, and finally, anything left over, is paid to the borrower to cover the cost of books, etc. If you live off-campus, the school will take the tuition out, and then you can use the remainder to pay your living expenses. If you are a first-year student, and a first time borrower, there are usually more restrictions in place – such as not being able to withdraw any excess funds until at least 30 days have passed since enrollment.

Many private loans do offer the option of being paid directly to the borrower. In this case, it is important that you coordinate your payments with the university, so that you can make all of your payments on time, and not face fees from either the bank or the school.

Finally, make sure that you talk to the school about how they treat student loan proceeds. As I mentioned in my article about The Risks of Private Student Loans, some schools have treated student loan payments that come from the student directly as being their own payment for school, and as a result, have lowered the amount of scholarships and grants provided to the student. Make sure that if you receive a student loan payment directly from the bank, you let the school know that it is from a student loan, and not a family or personal contribution to school.

Repayment Policy: I will discuss the specifics of repaying a student loan in the second half of my book "Getting Rid of Student Loans", but you really should look and see what options are available when you first apply for a loan. For most loans, you do not have to repay any portion of the principal or interest while you are in school, and usually for a 6-month grace period after you graduate or leave school.

Federal student loan programs offer several different repayment plans that allow you to pay off your loan over periods ranging from 10 to 25 years. You usually receive more detailed information from your servicer once you have graduated or have left school. If you take out a private loan, you really want to be aware of what repayment options the lender offers, as it may differ from federal loan programs.

Cancellation Policy: As I stated at the very beginning, student loans generally cannot be "cancelled" or discharged. However, if you have applied for a loan and have not drawn on it (i.e. you haven't paid the school any money from the loan), you can usually call the lender or servicer and cancel the loan without risk.

Types of Student Loans

Federal vs. Private Student Loans

In the student loan world, there are two main types of student loans: federally backed student loans and private student loans. Federally backed student loans are the most common type of student loan, accounting for over 70% of all student loans originated in the United States. Even though these loans are called Federal Student Loans, they are issued by banks across the United States, and are just insured by the US Government through Sallie Mae. Private loans differ in that they are issued by banks, but are not backed by the government and are not regulated as such.

Federal student loans are administered by the Department of Education and are insured through the quasi-governmental corporation Sallie Mae. To qualify for a Federal student loan, you must complete an application known as the Free Application for Federal Student Aid (FAFSA). This application must be

There are several different Federal Student Loan programs:

- Direct Stafford Subsidized Loans
- Direct Stafford Unsubsidized Loans
- PLUS Loans for Parents
- PLUS Loans for Graduate and Professional Degrees
- Federal Perkins Loans
- Federal Consolidation Loans

completed every year starting in the last year of high school until there is no longer a POTENTIAL need for aid. You must start in the last year of high school because the application typically has a deadline in March or April of the year financial aid will be needed. For example, if you are going to want financial aid in the Fall 2011 semester, you must apply in March of 2011.

I also emphasize that the application must be filled out each year you may want or need aid. It is simply not enough to fill out the application the first year. You must fill it out each year as your income and student status changes. I also strongly encourage you to fill it our regardless of your current need, as you may want to apply for aid as a graduate student. By filling it out each year, it gives the lender a clearer picture of your educational and financial history, which makes the lending process easier. To qualify for a Federal student loan, a borrower must meet residency requirements, attend an eligible school or institution, and have not been convicted of a crime. It is important to note that Federal student loans are based on need, and the FAFSA does ask for parental finances. It is expected that parents contribute to a child's education if they are able to.

Private loans differ from Federal student loans because they do not require the completion of the FAFSA. Instead, they are more like traditional loans, in that you fill out a loan application, and are qualified based on your credit history and ability to pay back the loan. Also, since it is usually a student applying for the loan, it may require a co-signer, such as a parent, to be approved. In this case, the parent would be just as responsible as the student for paying back the loan. Although it is a private student loan, it still carries with it the same restrictions as a Federal student loan in terms of being discharged. It does allow for higher borrowing limits and has no income restrictions. However, private student loans usually carry higher interest rates compared to Federal student loans.

Student Loan Type Breakdown

Direct Stafford Subsidized Loans: These are usually the best loans available to students, but they are also the hardest to get because you must qualify based on need. These loans are subsidized by the United States Government, which means that you qualify for a very low interest rate (currently 3.4%), and that you do not have to pay the interest accrued on the loan while in school or in grace or deferment periods. This is the lowest total cost loan option available.

Direct Stafford Unsubsidized Loans: These loans are very similar to the subsidized Stafford loans, but borrowers do not need to demonstrate financial need to qualify. These loans have no subsidies from the government, but the government does set the interest rates, which are fairly low. Interest accrues on these loans from the day the loan is first paid, and you can choose to pay the interest while in school, or you can allow it to accrue and have it added to your principal.

PLUS Loans for Parents:
An additional loan option is for your parents if you're a dependent student called a Direct PLUS Loan.
In order for a parent to be eligible for a Direct PLUS Loan, these are the requirements:

- You must be the student's biological or adoptive parent. Sometimes, a stepparent may qualify.
- The student must be a dependent (under the age of 24, has no dependents themselves, not married, not a veteran, not a graduate or professional degree student, and not a ward of the court)
- The student must be enrolled at least half-time at a school that participates in the program
- The parent must pass a credit check and not have negative credit marks. If the parent does not pass the credit check, they can still receive a loan by being endorsed by someone who *can* pass the credit check. The endorser is essentially the cosigner, and agrees to repay the loan if the parent fails to do so. The parent may also still receive a loan if he or she can demonstrate extenuating circumstances.

- The student and parent must be U.S. citizens or eligible noncitizens, must not be in default on any federal education loans or owe an overpayment on a federal education grant, and must meet other general eligibility requirements for the federal student aid programs

PLUS Loans for Graduate and Professionals
Students pursuing a graduate or professional degree can borrow a Direct PLUS Loan as part of their financial aid package. The same terms and conditions noted for PLUS loans for parents apply for PLUS loans for graduates and professionals:

- a determination that you (the applicant) do not have an adverse credit history; and
- a fixed interest rate of 7.9% for Direct PLUS Loans.

Federal Perkins Loans: The Federal Perkins Loan Program gives students another option to fund their education with low-interest loans. There are about 1,800 participating colleges, universities and institutions. The employees at your school's financial aid department are able to determine how much of the Perkins loans to award to students who are currently attending or plan to attend. Students who participate or are involved in certain public, military, or teaching service jobs or volunteer opportunities are eligible to have all or part of their loans eliminated.

Federal Consolidation Loans:
A Direct Consolidation Loan lets students combine multiple federal student loans into one loan. This gives the borrower one monthly payment as opposed to multiple, making it a bit easier to pay off.

From January through June 2012, the U.S. Department of Education will offer certain borrowers two options for consolidation:

- Traditional Direct Consolidation Loans
- Special Direct Consolidation Loans

In those 6 months, students who make separate payments on multiple federal loans may be eligible for a Special Direct Consolidation Loan. This program gives borrowers different repayment terms and benefits than a traditional Direct Consolidation Loan. There is also a different application process for Special Direct Consolidation Loans.

Private Student Loans:

Many lenders offer private student loans, which are very similar to Federal student loans, but are issued by private lenders. These loans are similar to Federal student loans in that the loan must be used for education, and the disbursement usually goes to the educational institution first, before the student. They are also very similar to Federal student loans in that they cannot be discharged in bankruptcy.

These loans are different from Federal student loans in that, since they are issued by private institutions and not the government, they require credit checks and an ability to pay them back. Many private loan lenders will usually require a parent to co-sign the loan if the student doesn't have sufficient credit history, or has the potential to not pay. These loans also differ in the interest rates charged, usually being much higher than Federal student loans.

Is it worth it?

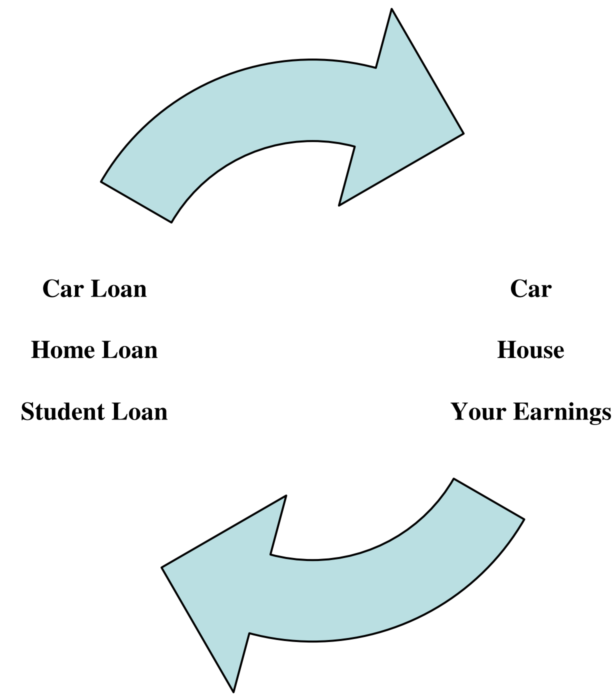
So, now that you have all the information on the various types of student loans, you need to ask yourself if they are worth it. To break it down, think about what the collateral of the student loan is: your future earnings.

Just like a car loan is a backed by a physical car, and a home loan is backed by your house, a student loan is backed by your earnings.

So, if you are thinking about getting a student loan, you should think about what your earnings will be in the job you want and how much it will cost to get there.

For example, if you want to be a K-12 teacher, the current starting salary nationwide for teachers with no experience is $36,762. How much education can you afford to pay for to make that much money?

To be safe, you should keep your total student loan debt below the minimum amount you would make on your first year of work. So, if you want to be a teacher, don't go into more than $36,000 in debt.



Why do I choose that amount? You should never have to repay more than 10% of your income for student loan debt. Most student loan repayment programs are repaid over 10 years, so if you earned $36,762 for 10 years, your 10 year earnings would be $367,620. 10% of that would be your first year's salary, or $36,762.

If you had to borrow $50,000 to become a teacher that makes $36,000, it would not be worth it. You will be paying too much on your student loans, and you will be struggling to make ends meet. Furthermore, your earning potential compared to what you spent doesn't make sense.

What is the Best Option for Me?

This is a tough call, but if you have to take out a student loan, you should definitely stick to Federal student loans. Even if you are considering private student loans, look at PLUS Loans, and have your parents co-sign those.

Federal student loans are your best choice because:

- They have the best interest rates
- They have the fewest borrower restrictions
- There are many programs to get them discharged in the future
- There is pending legislation which would allow them to be forgiven after a certain period of repayment

Whatever you do, make sure that you make the best choice for your *future*.

The very best option is to not get a student loan. You can see some strategies I've used to pay for school without going into debt: Make Good Money While in College.

Getting Rid of a Student Loan

Loan Repayment Options

Student loans have a big catch that many people seem unaware of – they cannot be discharged for any reason. As a result, your best bet is to repay them as quickly as possible. There is no magic bullet, but there are some programs that can make it easier to get out quickly.

If you have various other debts, make sure that paying off your student loan is your priority. In a worst case scenario, almost every other debt can be discharged, where a student loan cannot be. It will stick with you for life. There are reports now of seniors who are having their Social Security checks garnished because they didn't pay back a student loan.

If you are looking for programs to help you with your student loan repayment, they fall into the following buckets:

Deferment: Deferment allows you to postpone your student loan payments for specific reasons.

Forgiveness: Forgiveness allows portions or all of your loans to be forgiven and discharged.

Forbearance: Allows you to postpone paying your student loans because your lender has agreed upon a certain settlement.

Student Loan Deferment

Student loan deferment allows you to postpone payments on your student loans. Most loans automatically come with a 6 month grace period after you graduation (usually to allow graduating students time to find a job). This is the rule for most Federal student loans, including Stafford Loans, PLUS Loans, Graduate PLUS Loans, and Federal Consolidation Loans. If you have a subsidized loan, interest doesn't add up during deferment. If you have an unsubsidized loan, interest *does* accrue.

If deferment sounds like an option for you, there are many programs available you may qualify for. Some of the programs also coincide with student loan forgiveness programs. For example, the Peace Corps - not only do you qualify for deferment, but parts of your loan can be forgiven all together.

Loan deferment is only a temporary solution, so make sure that you are still making arrangements to pay back your loan. Remember, if you have a federal loan, it cannot be eliminated through bankruptcy. You will still be responsible for the loan until it is paid in full. Here is a list of different types of student loan deferment programs and eligibility requirements you must meet to qualify for each.

I've done my best to present an up-to-date list of student loan deferment programs. However, they do change. For the latest in student loan deferment programs, check out my list online:

Student Loan Deferment

Student Loan Deferment Options

Name	Time Limit	Restrictions
Action Programs Deferment	36 Months	• Must be a full-time paid volunteer in Action Programs • Must agree to serve at least 1 year
Armed Forces Deferment	36 Months	• Must be on active duty in the armed forces of the United States (Army, Navy, Air Force, Marine Corps, or Coast Guard) • You must submit an armed forces deferment form that has been certified by your Commanding or Personnel Officer • If you are in the reserves, you may qualify if: You are serving full-time for at least a year or are serving under an order of national mobilization.
Economic Hardship Deferment	36 Months Reapply Annually	• You are receiving payment under a federal or state public assistance program, such as Temporary Assistance for Needy Families (TANF), Supplemental Social Security Income (SSI), Food Stamps, or state general public assistance • You are working full-time and your total gross monthly income is less than or equal to the larger of the monthly federal minimum wage rate or 150% of the poverty guideline for your state.

Graduate Fellowship Program Deferment	No Limit	• You must enroll in a fellowship program that: provides sufficient financial support to allow for full-time study for at least 6 months, requires a statement of objectives, requires periodic reports or projects that measure the graduate fellow's progress • You must have a Bachelor's degree conferred by an institution of higher education • Been accepted into the fellowship program
In-School at Least Half-Time Deferment	No Limit	• You must be enrolled in an eligible school at least half-time
Internship/Residency Deferment	No Limit	• Your internship/residency must be a supervised training program • Your internship/residency must lead to a degree or certificate • You must at least hold a Bachelor's Degree before acceptance into the program • You must have a deferment form signed by an authorized official of the organization from which you are taking the program
Parental Leave Deferment	6 Months	• Federal PLUS Loans are not eligible • You must be pregnant, caring for a newborn child, or caring for a newly adopted child • You must NOT be working full-time or attending school during the deferment period

		• You must have been enrolled in school at least half-time during the six months prior to this deferment
Peace Corps Deferment	36 Months	• You must agree to serve in the Peace Corps for at least one year • You must have the deferment form signed by a Peace Corps official
Tax Exempt Organization Deferment	36 Months	• You must be serving full-time in an organization that has a tax exemption under Section 501(c)(3) of the Internal Revenue Code of 1986 • You must assist low income people and their communities in eliminating poverty and poverty-related human, social, and environmental conditions • You must not earn more than the federal minimum wage; however, you may receive fringe benefits like others in the organization • You must not engage in religious instruction, proselytizing, fund raising to support religious activities, or conduct worship services as part of your duties • You must have agreed to serve in this organization for at least one year

Teacher Shortage Area Deferment	36 Months	• Federal PLUS Loans are NOT eligible • You must teach full-time in a public or non-profit private elementary or secondary school in a geographic region, grade level, academic, instructional, subject matter, or discipline classified shortage area, as defined by the U.S. Department of Education.
Unemployment Deferment	36 Months Reapply Every 6 Months	• You must be diligently seeking but unable to find full-time employment in any field or at any salary or responsibility level even if you are not eligible for unemployment benefits (or if your eligibility expired) • You must be registered with a public or private employment agency if there is one within 50 miles of your permanent or temporary address. • If you are requesting an extension of your current unemployment deferment, and you are not providing documentation of your eligibility for unemployment benefits, you must certify that you have made at least 6 diligent attempts to find employment on the most recent 6 months

Student Loan Forgiveness

Some of the programs above also may allow you to qualify for student loan forgiveness. There are many ways to get student loan forgiveness, and it should be another option for you to consider, since it is free money. Under certain circumstances, all or part of your student loan can be canceled in a process called student loan forgiveness. To qualify, you must perform volunteer work, perform military service, practice medicine in specific communities, or meet other criteria.

The great thing about student loan forgiveness, unlike other debt, is that the amount forgiven is *not* treated as taxable income. This means you do not have to report this money on your taxes.

Volunteer Work

While some volunteer work can be a huge commitment and take a lot of time and involvement, it may be worth it to find a cause you support, as it'll give you an opportunity to make a change, and the program may also offer money to be used towards your student loan debt.

Peace Corps – If you participate in the Peace Corps program, you get an automatic deferment of Stafford, Perkins, or Consolidation loans. You can also get partial cancellation of Perkins Loans based on the amount of time you serve. Currently, you get 15% per year, with a max of 70%.

Americorps – If you serve with the Americorps for 12 months, or if you volunteer for Volunteers in Service to America (VISTA) for 1,700 hours you can receive $4,725 towards your student loans. That's almost $5,000 you get to keep in your pocket.

Military

The military is well known for their different Student Loan Repayment Programs. Each year, 15% of the student loan balance will be repaid by the program, up to the branch maximum.

The current maximums for each branch are:
Army – $65,000
Army Reserve – $20,000
Navy – $65,000
Air Force – $10,000

To qualify, you must request this program at the time of enlistment or reenlistment, and you must score 50 or higher on the Armed Forces Qualifications Test.

Teaching
Students who become full-time elementary or secondary school teachers at a school that serves low-income families can have a portion of their Perkins Loan forgiven. This program forgives 15% of your loan in each of the first and second years, 20% in each of the third and fourth years, and the remaining 30% in the fifth year.

To get the latest list of teaching forgiveness options, check out: Ways To Get Student Loan Forgiveness

There's also a database of forgiveness options in various locations around the United States maintained by the American Federation of Teachers if you're looking for programs near your area.

Legal Studies
There are a lot of law schools that forgive the student loans of those who serve in the public interest or for non-profits. These assistance programs provide loan repayment or forgiveness, lower interest rates on loans, or postponed payment schedules. Most programs have income limitations and specify which types of employment qualify.

There are 23 states that offer loan repayment assistance programs: Arizona, District of Columbia, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Montana, New Hampshire, New Mexico, New York (two programs), North Carolina, Ohio, Oregon, South Carolina, Texas, Vermont, and Virginia.

Medical Studies

There are several student loan forgiveness options available for medical students. The U.S. Department of Health and Human Services offers loan forgiveness programs through two programs:

National Health Service Corps requires that a student complete a five-year commitment to providing medical care in "needed" areas, and you can receive up to $170,000 in loan forgiveness.

Nursing Education Loan Repayment Program has a guideline that students provide two years of nursing service at a qualifying non-profit, and you can have 60% of your loan forgiven. There is also an optional third-year, where you can have an additional 25% forgiven.

If you are interested in research, the National Institute of Health offers a loan forgiveness program that repays up to $35,000 each year for qualifying research at either a non-profit or university, as well as directly at the National Institute of Health.

If veterinary medicine is your study of choice, the U.S. Department of Agriculture offers a Veterinary Medicine Loan Repayment Program where you can receive loan forgiveness of up to $25,000 per year for three years, as long as you work in a designated area.

Finally, many individual colleges offer different types of loan forgiveness programs, so check with your local college.

Forbearance

Forbearance is where the student loan holder gives you permission to stop making payments for a set period of time. Unlike deferment, this is not for a qualifying reason, but rather for a hardship that prevents you from making payments. Deferments are directly tied to the student loan program, or terms of the private student loan, where forbearance is an agreement between you and the lender.

Unlike deferment, interest always accrues during a forbearance (interest accrues in deferment as well, but with subsidized loans, the federal government pays the interest). Forbearances are usually granted for up to one year at a time.

Forbearances can sometimes be easier to obtain than a deferment, depending on the student loan type. The reason for this is because they are a direct negotiation with the lender, rather than qualifying for specific terms.

Forbearances may be granted for a number of reasons, including:

- Poor health preventing work
- Inability to pay within the maximum repayment terms
- Monthly payments totaling more than 20% of a borrower's monthly income

If you are interested in pursuing forbearance, you need to contact your lender directly and explain to them your situation.

Other Ways to Cancel or Defer a Student Loan

There are a couple last things that should be mentioned when looking at student loan repayment. These are rare, and so they only mention this footnote. Federal student loans can be cancelled in the following circumstances:

- Death of the Borrower – If the student dies, a federal student loan can be cancelled (this doesn't apply to private loans)
- Permanent Total Disability – You can cancel a federal student loan if you are unable to work because of an injury or illness that is expected to continue indefinitely

You can also defer a student loan if you are temporarily disabled or enrolled in a rehabilitation program for the disabled.

Borrower Beware

Student loans are like any other debt out there – you owe money, and you must pay it back. Unlike other forms of debt, however, the ways to discharge student loan debt are few and far between. Since the collateral for the student loan is your income, it is expected that you will eventually be able to repay the loan over time.

Since the government insures most student loans, they have even more power than regular lenders to get their money back. They can garnish your wages; garnish your Social Security; and more. And since they are the primary lender, they are the ones who pass the laws that prevent you from escaping from your student loan debt.

Bankruptcy

As mentioned several times before, your federal loans will remain with you until they're paid off or forgiven. They will not disappear if you file bankruptcy. You'll still be responsible, so keep this in mind. There are a few exceptions, and you have to prove the loan would be a severe hardship for you. There are several factors which are considered:

- Your income and expenses
- How long your financial problems have existed and how long they are likely to continue
- How hard you have tried to repay your debt
- Your future earning potential

If you are going to try to pursue having your student loan debt discharged in bankruptcy, you actually have to file a separate proceeding to consider your discharge request. You will also most likely need an attorney to help you. It will be costly, and you most likely will not succeed, so chose this path wisely.

Cosigners

A second borrower beware is with private loans and cosigners. If someone is cosigning for your loan, they are essentially just as responsible for your loan as you are. If you decide to not pay off your loans, you will be putting your cosigner's credit at risk. They will be seen as responsible to pay in the event that you can't.

This is true even in the case of death or disability. As a result, if you cosign a private student loan, it is strongly advised that you take out a term life insurance policy on the student, with the cosigner being the beneficiary. That way, should anything happen to the student; the proceeds from the life insurance policy can be used to pay off the student loan debt. Otherwise, the cosigner could be liable for the debt until it is paid off.

Final Words

Thank you so much! I hope you've enjoyed this eBook as much as I have loved writing it for you. I can't thank you enough for your continued support of The College Investor and everything I do.

I appreciate each and every one of you for taking the time out of your day to read this, and if you have some extra time, **I would love to hear your thoughts about it.**

Please contact me on Twitter @collegeinvestin, on my Facebook Page, or shoot me an email. I read every single comment and email, so don't be afraid to say hi!

Thanks again and I wish you success in your student loan endeavors!