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Student Loans

I owe a student loan that I cannot pay. What will happen?

If you owe a federal student loan and have not made payments, the loan will eventually go into default. Once the loan is in default, the government has special powers to collect the loan, including taking your Social Security benefits. Up to 15% of your Social Security benefits can be taken by the government to repay a student loan in default.

What if I co-signed for a student loan for my child or grandchild?

You are still responsible for the loan, even as a co-signer. If your child or grandchild does not pay the loan, the government will come after you for payment.

How do I stop or prevent my Social Security benefits from being garnished?

You have a few options to prevent or stop garnishment of your benefits. These options are:

- Applying for a discharge of the loan because of your disability
- Consolidating the loan with an income-based payment plan
- Rehabilitating the loan out of default by working out a payment plan

- Applying for a suspension or reduction of the garnishment due to hardship
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What is a disability discharge?

If your doctor will sign a statement that you cannot go back to work in the next 5 years because of your health, then you may qualify for a Total and Permanent Disability Discharge of the loan. To start the discharge process, you must complete an application. You can apply online at www.disabilitydischarge.com, or you can call (888) 303-7818 to ask that an application be mailed to you.

If the application is approved, you will be monitored for 3 years. Each year, the Department of Education will send you a form to sign and return certifying that you have not earned income. If you go back to work during the monitoring period, your discharge could be canceled.

At the end of the monitoring period, your discharge is complete and the debt is waived. However, there are tax consequences of loan forgiveness because the amount of the loan that is forgiven is considered income. You may be insolvent for tax purposes, but you must talk to a tax professional for advice before applying for a discharge.

What is consolidation?

Consolidation lets you combine your defaulted loans into one new loan. The new loan gets you out of default and gives you a fresh start. Once your loan is consolidated into the new loan, you can apply for an income-based repayment plan, which takes into account your income when setting your monthly loan payment. You can apply for consolidation online at www.studentloans.gov or call the Department of Education's Consolidation Department at (800) 557-7392 to ask for an application.

What is rehabilitation?

Rehabilitation lets you make a payment plan to get out of default. If you make 9 on time payments over 10 straight months, you will complete the rehabilitation and your loan will be out of default. To ask for a rehabilitation plan, you should call your

loan holder, who should discuss your options with you, including the pros and cons of loan rehabilitation and loan consolidation. If you decide on rehabilitation, the loan holder should start out with the amount you would pay under an income-based repayment plan, which should be based on your income.

How do I ask for hardship to reduce or stop the garnishment of my benefits?

The Department of Education will need the following documents before they will review a request for a hardship reduction:

- The notification of offset;
- The notification letter showing the amount of federal benefit;
- Proof of yearly income;
- A completed financial statement that must be returned to the Department of Education or guaranty agency within ten days. If the situation is an emergency, you may submit equivalent information such as an eviction notice or a court order of foreclosure in writing with the completed financial statement.
- A letter explaining the exceptional circumstances that caused the financial hardship along with any other supporting documents.

You can call the Department of Education at (800) 557-7392 to request a hardship.

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