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Student loan paperwork a potential nightmare

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You filed your last term paper. Pulled your last all-nighter. And as you enter the proverbial real world with college degree in hand, you reflect with pride on your academic achievement and embrace with newfound confidence the personal and professional challenges that lie ahead.

A little advice? Don't close the book on campus life just yet. Your biggest test is yet to come.

As the estimated 2.8 million college graduates descend upon the job market this year, most face the daunting task of repaying tens of thousands of dollars in student loans. Many have no idea how much they actually owe or to whom payments should be directed, leaving even the most well-intentioned borrowers more vulnerable to delinquency and default.

"The first year of repayment is tough, because that's when recent grads are moving from job to job, they're not being paid as much as they hope to be down the road, and they're physically moving (into homes or apartments), so just keeping track of their loan paperwork can be difficult," says Robert Shireman, executive director of the nonprofit Project on Student Debt in Washington, D.C., and Berkeley, Calif.

It's hard to blame them. With college tuition costs soaring faster than the rate of inflation -- 7 percent a year, according to the College Board -- many degree seekers are forced to finance their educations with a hodgepodge of federal loans, personal loans and supplementary cash from the "Bank of Mom and Dad."

Student loan packages often include both subsidized and unsubsidized Stafford Loans, PLUS loans and private education loans to cover additional living expenses -- all of which offer different terms, interest rates and repayment schedules. Those with exceptional financial need may also have subsidized Perkins loans tossed into the mix.

The National Center for Education Statistics reports some 66 percent of graduating seniors financed their undergraduate education using loans in 2003-2004, the most recent school year for which data are available. Their average cumulative debt that year was \$19,202, up from \$13,171 in 1995-1996. And that doesn't include any credit card debt they may have accumulated.

Senior year, undergraduate students carried an average outstanding credit card balance of \$2,864 in 2004, according to Nellie Mae, a subsidiary of Sallie Mae, which provides both federal and private education loans.

"For many, student loans are a first borrowing experience, so it's all about understanding your rights and responsibilities," says Martha Holler, a spokeswoman for Sallie Mae. "When you graduate, you may not remember what your mixture of loans is."

Organization is key

The first step to managing student debt is to get your ducks in a row.

That means pulling together all documents received from lenders, including application forms, promissory notes, disbursement and disclosure statements, and repayment schedules. It's also wise to keep copies of all correspondence between you and your lender and your financial aid office.

If you haven't done so already, start a filing system now to help organize your paperwork, which you should plan to keep until well after your student loans have been repaid.

Good records are especially important because some lenders sell student loans to other institutions, and while they're required to notify you of such transfers, the lender may be unable to track you down if you change your address often enough. At the end of the

day, the burden of repayment is yours, whether you receive monthly bills or not.

Sources of help

If you haven't kept paperwork from your lenders, or you just wish to double-check your student loan obligations, there are a few good sources that can help.

[National Student Clearinghouse](#), a nonprofit group in Herndon, Va., offers a free online tool used by many financial aid counselors to help students track their loans and obtain lender contact information. Its "LoanLocator" only requires a Social Security number and date of birth.

Some 350 colleges and universities, including many larger state schools, also subscribe to EdFund.org, which provides to students a free, single-page snapshot of all their federal Direct, Stafford, Perkins and consolidation loans. The student loan debt summary does not include federal PLUS, institutional or private loans.

"Schools use our summary to let students know how much debt they've accumulated and what their estimated monthly payments will be," says Anita Kermes, manager of EdFund's Default Prevention Initiative unit. "They can send it up to four times a year to students, and borrowers can also log on to our Web site and query monthly."

You can get the same information by doing the digging yourself. The online National Student Loan Data System, offered through the U.S. Department of Education, provides a central database for federal student aid. The program receives data from schools, guaranty agencies, the Direct Loan program, the Pell Grant program and other government programs on all federal aid, including Stafford, Perkins, Direct and consolidation loans.

Facing the first payment

The biggest challenge for many borrowers, of course, is coming up with the cash.

As their grace period comes to an end, some recent grads find the monthly payments they agreed to four years ago are too much to handle -- especially if they remain unemployed. In those cases, Kermes says borrowers should contact their lenders immediately to arrange a payment schedule they can afford.

"A lot of students start getting their monthly student loan bills and it's like, 'Oh, my gosh, it's a minimum monthly payment of \$400. How am I going to pay that?'" she says. "But it's not like a credit card bill. You have some options. You should call your lender and explore those repayment options."

Bank- or government-issued federal student loans, such as the Stafford, offer a variety of payment plans to meet the needs of borrowers. They include income-contingent or income-sensitive payments based on the borrower's income and total debt, graduated payments that slowly rise with your projected income, and an extended-pay plan where you stretch the term to lower the payments. Students can switch back and forth to suit their financial needs, says Kermes, and no prepayment penalties exist. The same repayment options and flexibility are available if you choose to consolidate your student loans.

Federal Perkins loans for low-income students are issued directly by your school, which may have its own set of rules. Such loans, however, already offer a low 5-percent fixed rate, so it may not make sense to include the Perkins if you choose to consolidate your loans. Another reason to keep these loans separate is that only the unconsolidated portion of your Perkins loan is eligible for loan forgiveness should you enter a field, such as teaching or law enforcement, that helps repay your student debt.

"That's why it's dangerous to consolidate the Perkins loans, because you give up the forgiveness provision," says Kalman Chany, founder and president of New York-based Campus Consultants and co-author of "Paying for College Without Going Broke."

"If you intend to work in any of the fields of employment that offer loan forgiveness, don't include your Perkins loan in a consolidation."

The federal loan programs also allow eligible borrowers to defer payments for up to three years due to economic hardship or an inability to find full-time employment. You may be able to defer, as well, if you return to school at least half time or participate in an approved graduate fellowship or rehabilitation training for the disabled.

Take note, however, that while the government pays your interest on subsidized Stafford loans during deferment, interest on unsubsidized Stafford loans will continue to accrue. If you apply for deferment on a consolidation loan, you will retain interest relief for any portion of your loan originally derived from a subsidized Stafford loan and pay interest on the unsubsidized portion.

If you don't meet deferment eligibility, you may still request forbearance from your lender, in which you postpone principal payments on your loan, but interest continues to accrue. These reduce your monthly payments and are generally granted in 12-month increments.

Incentive rewards

When you resume full payments again, it's important to get your monthly checks in on time. Not only will it improve your credit history, but some programs offer incentive rewards for on-time repayment. After 33 months of on-time payments, for example, Nellie Mae and Sallie Mae offer 3.3 percent cash back on the original principal amount, which borrowers can take either as a credit to their account or a check.

Managing student debt is an unenviable task, to say the least. The fastest way to get your loans behind you is to stay organized, explore your options and exercise good financial discipline. Hey, you'll need those skills to succeed anyway.

"Student loans are a good way to learn about managing your finances over the long-term" says Shireman.

Next up: Consider consolidating your student loans before July 1.