

CONSUMER ADVISORY

July 2013

By Attorney General Tom Miller

Student Loans & Loan Debt

If education is the ticket to success, it can be a pricey ticket when it involves the cost of higher education, whether it's college or career school. Many people pay for higher education through federal and private student loans.

Federal Student Loans

The federal government funds, regulates and oversees federal student loans. These are the loans you should seek first. If you qualify for federal student aid, you are eligible to borrow from at least one of the federal student loan programs. Federal student loans generally offer better terms, lower interest rates and lower fees than private loans. In addition, loan forgiveness options are available to federal student loan borrowers for some public service or teaching professions. To determine your eligibility for financial aid funds, including federal student loans, you must first file a Free Application for Federal Student Aid (FAFSA) through the U.S. Department of Education. Go to www.StudentAid.gov for more information.

Private Student Loans

Private financial institutions, such as banks and credit unions, nonprofit corporations, and schools can issue private student loans. The federal government does not subsidize private loans, which tend to be more expensive through higher interest rates and fees. Private loans typically provide fewer options if you wish to consolidate or cancel them, or if you later face financial trouble and want to temporarily postpone or lower your payments.

Doing Homework on Student Loans

Be cautious about the types and terms of student loans, and research who is really behind them. Some private lenders market loans that may appear as government loans, and many loans that bear the name of a school may actually be handled through or sold to a commercial lender. Be wary of promotional offers that use free gifts to lure you into loans that may not be in your best interests, and resist high-pressure sales pitches. Do not give out personal information like your Social Security number, Federal Student Aid Personal Identification Number (PIN) during an unsolicited contact by phone, through the mail, or via the Internet. Be sure you know exactly what lender you are dealing with before providing personal information.

Consolidating Loans

Loan consolidation most often provides more of a convenience than savings. You generally cannot combine federal student loans with private loans, and doing so could remove some benefits and protections you have with your federal student loans. Some lenders tie promised discounts to certain conditions, such as requiring automated payments, a minimum loan balance, or additional loan terms. Be sure you fully understand the terms before accepting a consolidation loan.

Loan Trouble?

If you experience difficulty making your monthly payments, contact your loan holder immediately. The worst thing you can do is stop paying! Defaulting on a student loan will lead to increased fees, collection costs, damage your credit rating, and disqualify you from additional federal student aid. You can request a deferment or forbearance on federal loans to temporarily suspend or reduce your monthly payments. Additionally, there are a number of repayment plans available, including ones based on your ability to repay, which may enable you to keep your loans in good standing. Contact your loan servicer to discuss your options on federal student loan repayment.

Be wary of "student loan assistance program" offers. At best, these companies will charge you hefty fees for services you could do yourself for free. At worst, these could be scams that seek access to your personal information or try to steal your money. Before speaking with these companies, contact your lender or the government's student loan website to learn more about your options.