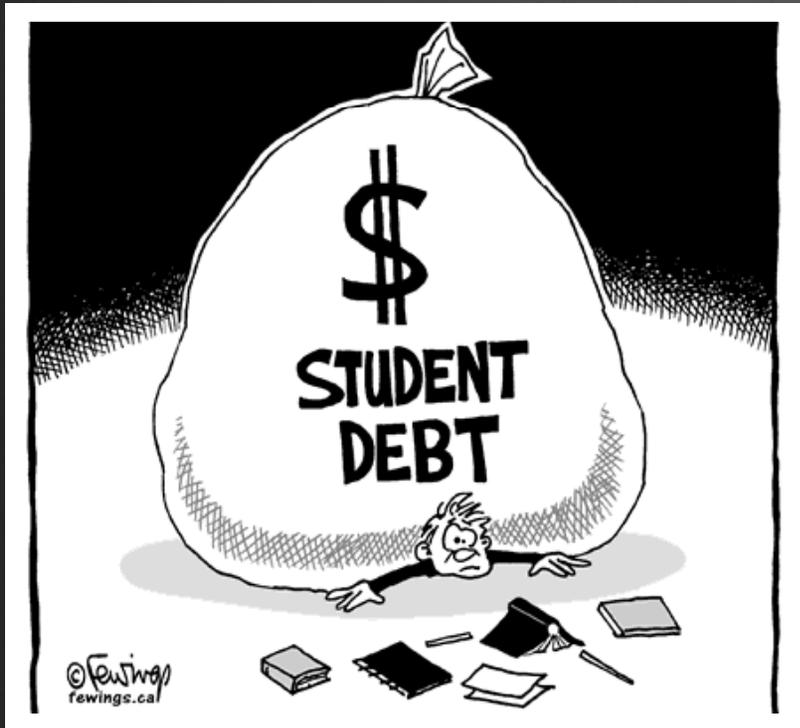


Discharging or Modifying Student Loans

Presented By:

DELAWARE BANKRUPTCY
AMERICAN INN OF COURT

Considerations:



Type of loan?

In default?

Pre-default?

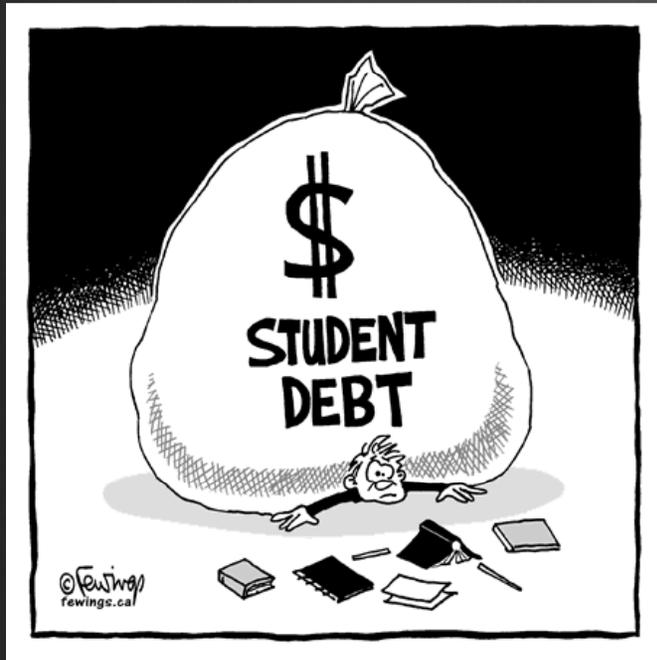
Postponement?

Cancellation?

Post-Default?

Bankruptcy Discharge?

Type of Loan?



Federal Loans

- Federal Direct Loans
- Federal Family Education Loans (FFEL)
- Stafford Loans
- PLUS Loans
- Perkins Loans
- Health Education Assistance Loan Programs (HEAL)

Type of Loan?



Private / Alternative Loans

Consolidation Loans

Private Consolidation Loans

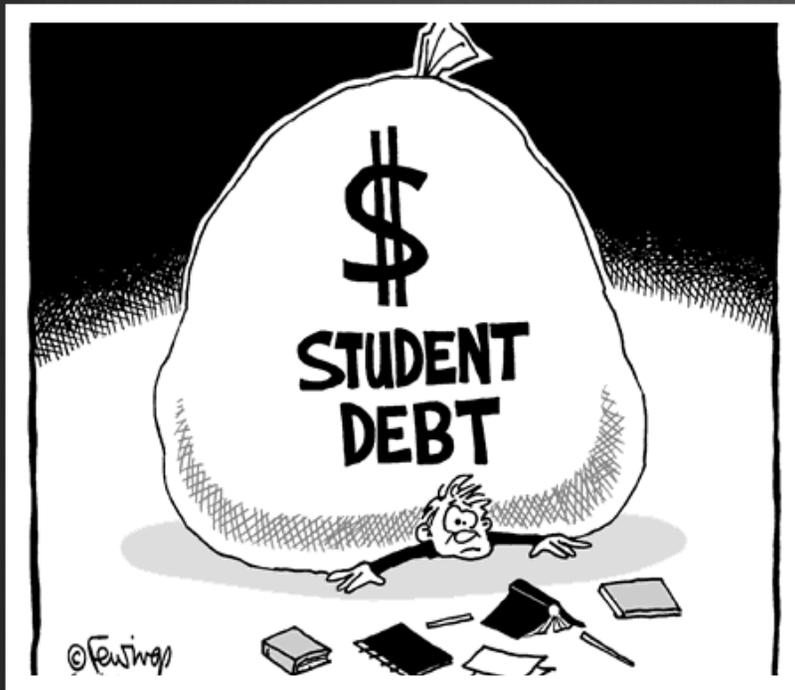
Federal Government Consolidation Loans

In Default?

Federal Loans

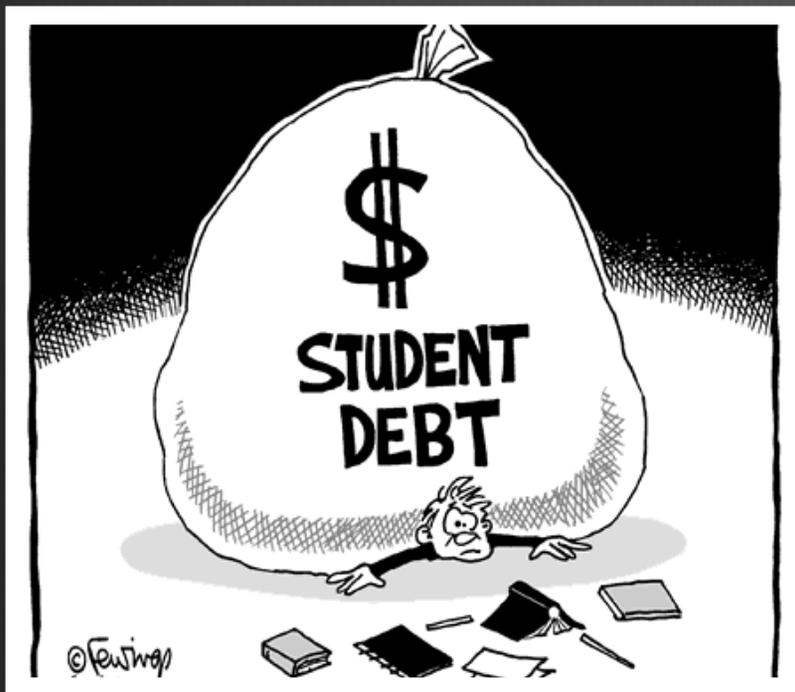
You are in default on most student loans if you fail to make payments for nine months. The entire loan balance becomes due once you default.

Most borrowers end up in default because of failure to pay, but there are other ways to default on your loans as well. A loan holder can declare a default if you fail to meet other terms of the loan contract and this failure to meet your obligations continues for the nine month period.



In Default?

Federal Loans



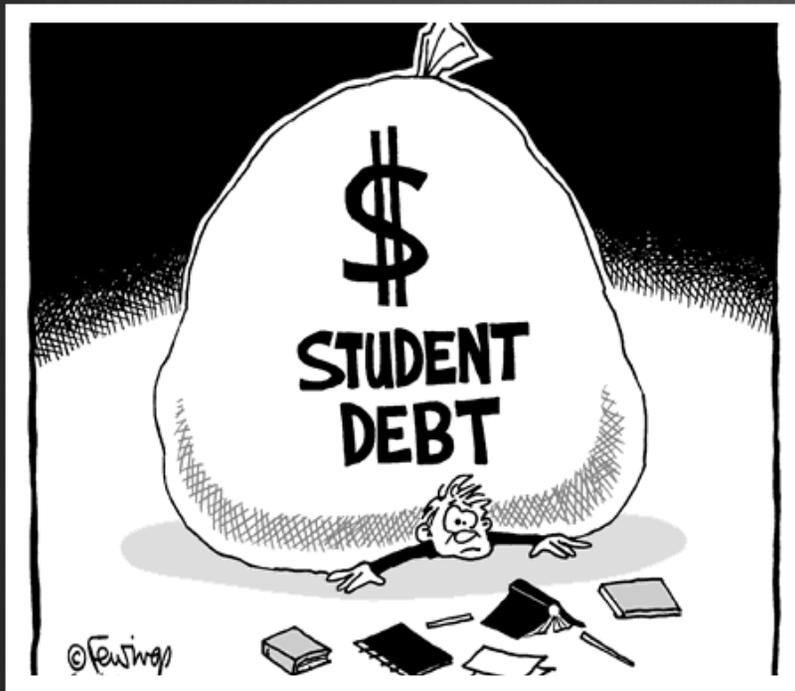
A delinquency period begins on the first day after you miss a payment. Your loan holder has certain responsibilities once you are delinquent. During the first 15 days, they must send at least one written notice or collection letter. If the delinquency goes on for nine months, your loan holder will declare you in default.

It is your responsibility to notify your loan holder if you move to a new address. You will still be responsible for your loans if you didn't get billing statements because you moved and didn't notify your lender.

In Default?

Private Loans

You do not have the luxury of a nine month period if you miss payments on a private student loan. You should understand that your loans will usually go into default as soon as you miss a payment. The default period will be described in the loan contract. You should review your private loan contracts carefully to better understand what rights you have.

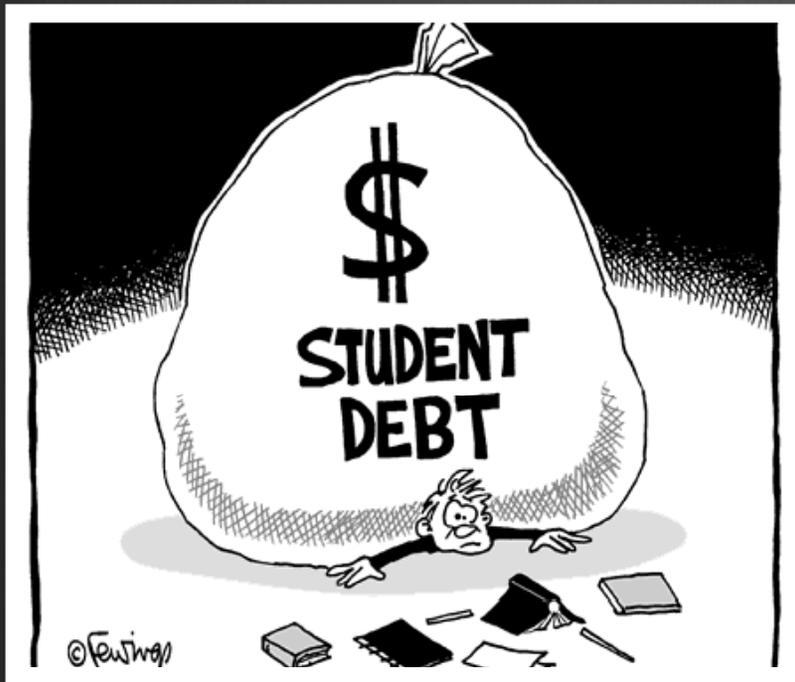


Pre-Default?

Basic Federal Options

Standard Repayment

A standard repayment plan is what you get if you do not make a different choice. You have a minimum of five years, but not more than ten years to repay with a standard plan. FFEL borrowers are automatically assigned this plan if they do not select a different option within 45 days of being notified by the lender to choose a repayment plan. The monthly amount may vary if there is a variable interest rate.

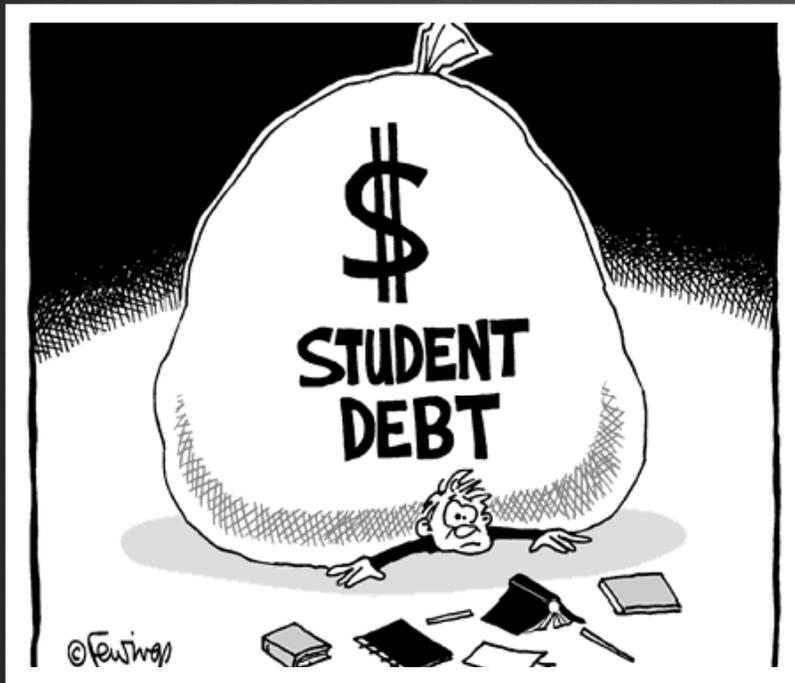


Pre-Default?

Basic Federal Options

Graduated Repayment

Under a graduated repayment plan, payments start out low and increase during the course of the repayment period. The payments usually increase every two years. Generally for FFEL Loans and Direct Loans, the loan still must be paid over a period of 10 years. However, if your loan balance is high enough, you can make graduated payments as part of an extended repayment plan.

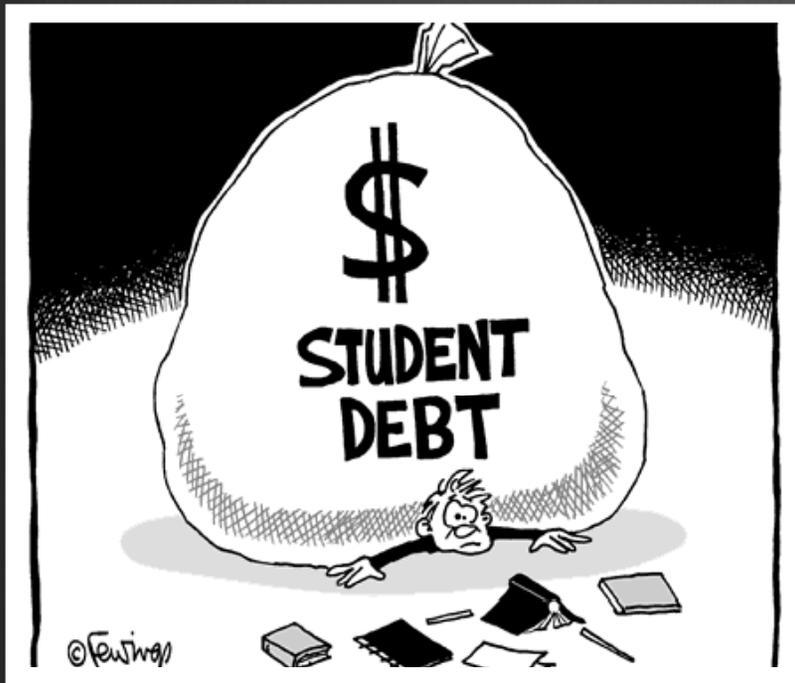


Pre-Default?

Basic Federal Options

Extended Repayment

Extended repayment plans are available if you have total outstanding principal and interest exceeding \$30,000. In these cases, you may repay on a fixed or graduated payment schedule for a period not to exceed 25 years.

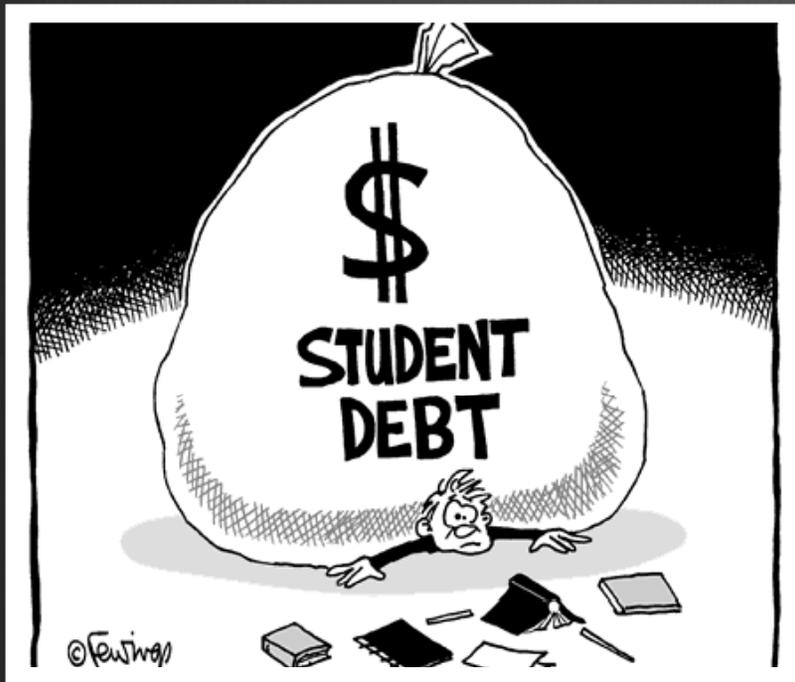


Pre-Default?

Basic Federal Options

Perkins Loans Repayment

Perkins repayment plans are different from FFELs and Direct Loans. For example, Perkins loans have minimum monthly repayment rates, set by law. Schools are allowed to extend the repayment period due to a prolonged illness or unemployment. Extensions may also be granted if you qualify as a low-income individual. Interest continues to accrue during any extension of a repayment period.

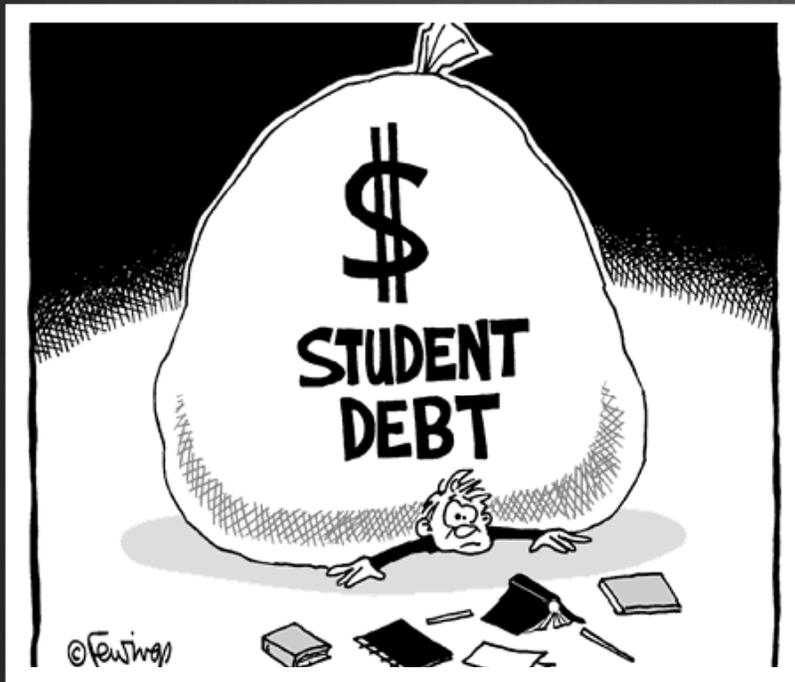


Pre-Default?

More Federal Options

Income Based Repayment (IBR) Program

IBR helps borrowers keep their loan payments affordable with payment caps based on their income and family size. IBR is available in both the FFEL and Direct Loan programs. You can repay all federal student loans using IBR, except for parent PLUS loans. Borrowers with grad PLUS loans may also use IBR. To qualify for IBR, you will have to show that you have enough debt relative to income. IBR then uses a sliding scale to determine how much you can afford to pay each month. After the initial calculation, your payment may be adjusted each year based on changes in income and family size.

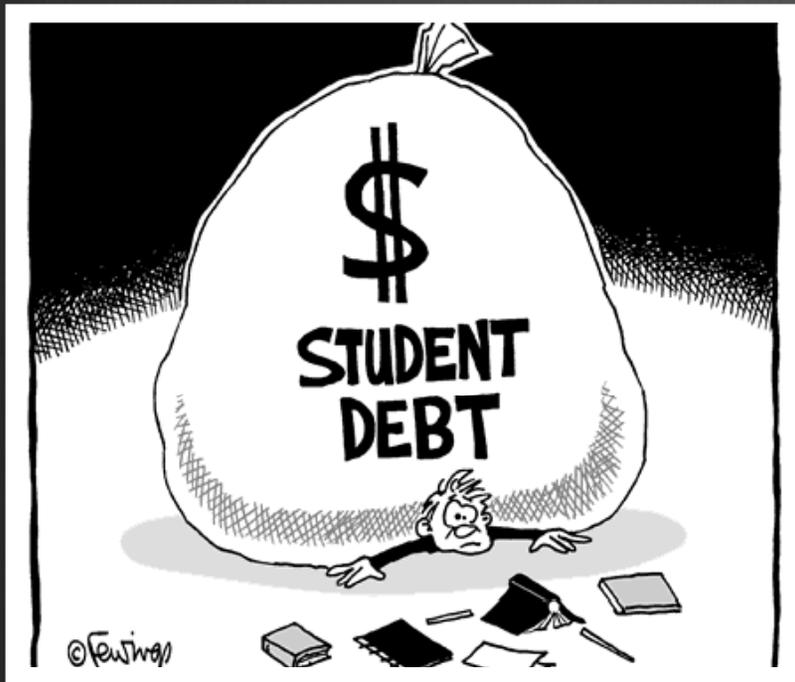


Pre-Default?

More Federal Options

Income Based Repayment (IBR) Program

Your payment will never be more than the standard 10 year payment amount unless you choose to leave the IBR program. If you are married and both you and your spouse have student loans, the IBR formula will consider you and your spouse's joint federal student loan debt as well as your joint income if you file taxes jointly. If you are married, but file income taxes separately, only your income will be counted in determining the IBR repayment amount.

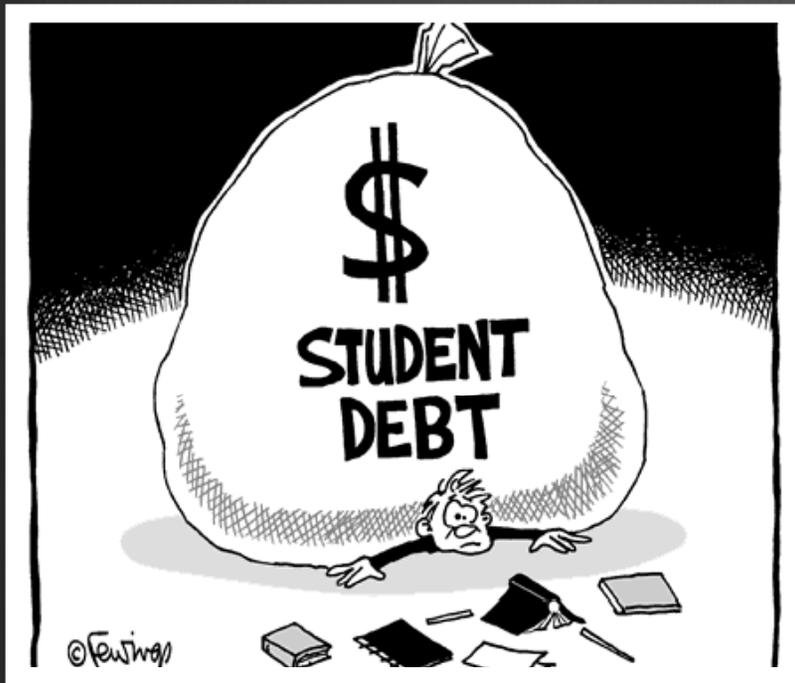


Pre-Default?

More Federal Options

Direct Loan Income Contingent Repayment Program (ICRP)

Monthly payments under an ICRP do not need to cover monthly accruing interest. Monthly payments go up as income increases. The required payment can be no greater than 20% of any earnings above the poverty level.

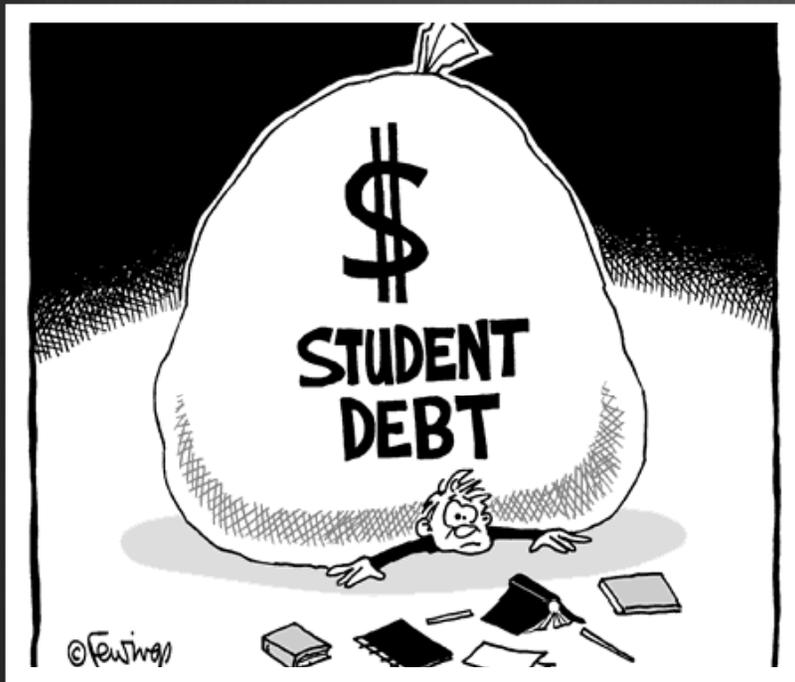


Pre-Default?

More Federal Options

Direct Loan Income Contingent Repayment Program (ICRP)

The ICRP is available only in the Direct Loan Program, including the Direct Loan consolidation program. If you are married, your joint income will be counted in figuring out the ICRP amount regardless of whether you file taxes jointly or separately.

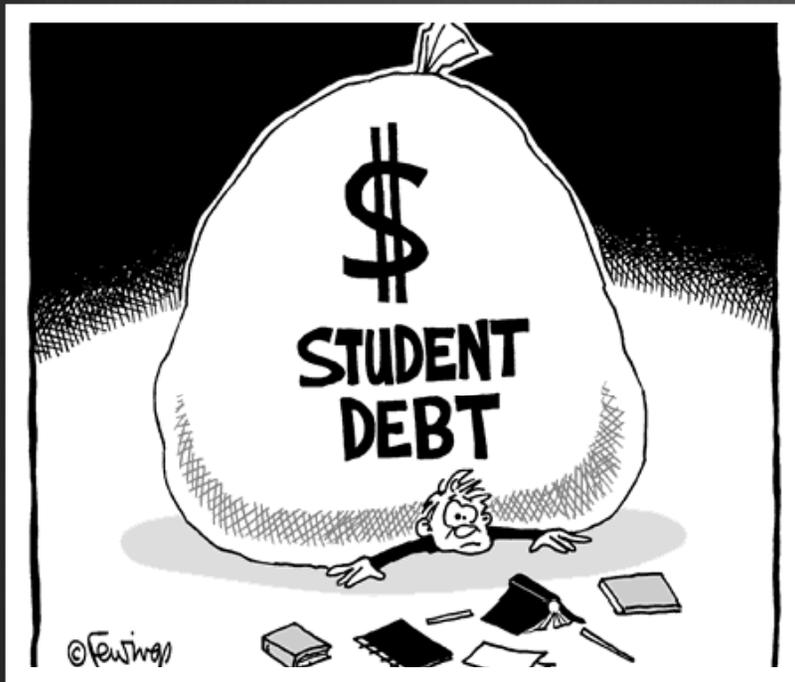


Pre-Default?

More Federal Options

Direct Loan Income Contingent Repayment Plan (ICRP)

Parent PLUS loans are not eligible to be repaid under ICRP (or IBR). However, parent PLUS borrowers can consolidate the PLUS loans and then choose ICRP for the new Direct Consolidation loan. If you continue making ICRP payments for 25 years, any debt that remains is canceled. This canceled amount will be taxed as income.



Pre-Default?

More Federal Options

FFEL Income Sensitive Repayment Plans (ISRP)

The FFEL program offers Income Sensitive Repayment Plans (ISRP). With these plans, your monthly loan payment is calculated based on your expected total monthly gross income. Adjustments are made every year. Monthly payments under an ISRP, unlike ICRP and IBR, must cover at least accruing interest. Exact payment amounts are set at the lender's discretion.



Pre-Default?

Private Loans

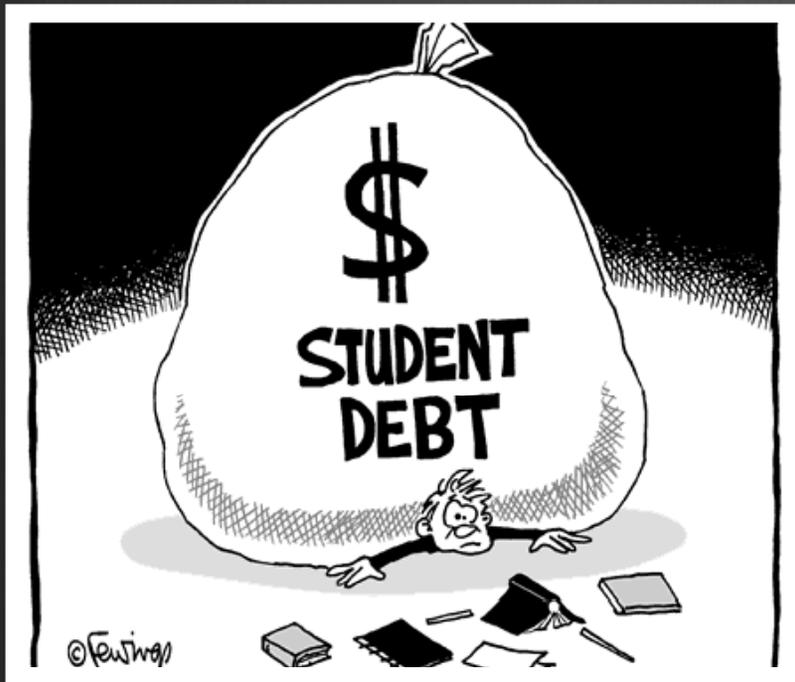
Private lenders may offer similar programs, but they are not required to do so. Still, they must at least fulfill any promises they have made about the types of options they offer. For example, a private lender may offer loan modification or forbearance. Some lenders will charge for these services. There are almost as many private student loan repayment plans as there are lenders.



Postponement?

Grace Periods

You usually do not have to start repaying your loans right away. This “waiting period” after graduation and before repayment begins is known as a “grace period.” Grace periods can be extended for up to three years (in addition to the standard six months) if a borrower is serving on active duty in the Armed Forces. Repayment begins after the grace period is over.

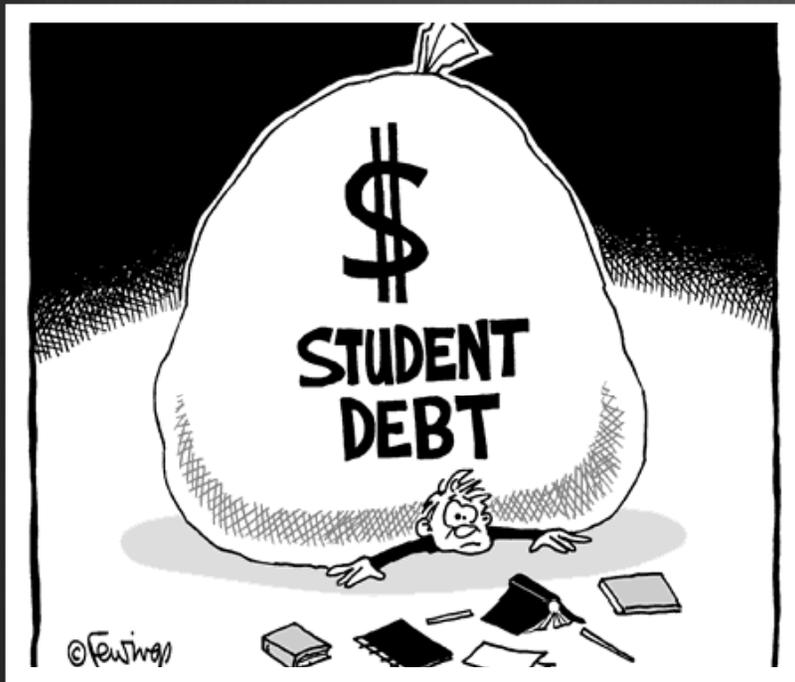


Postponement?

Grace Periods

Stafford Loans

You have six months to begin repayment on Stafford loans after graduation, or after you leave school or drop below half-time enrollment. Older Stafford Loans may have a longer grace period. You can also request a shorter grace period if you want to start repaying sooner, and avoid unnecessary interest capitalization. “Capitalization” is when interest accrued during the grace period or other deferment is added to the loan principal when repayment begins.

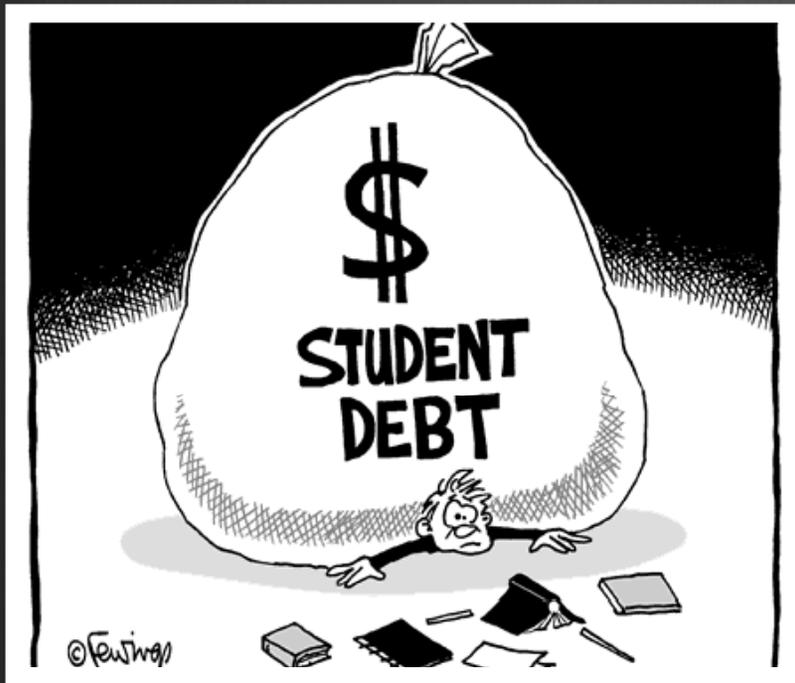


Postponement?

Grace Periods

Stafford Loans

Interest will not accrue while you are in school, and during the grace period for subsidized Stafford loans. The government pays the interest on these loans. This is not the case for unsubsidized loans. If you have unsubsidized loans, you may either pay the interest during the in-school deferment and grace periods, or the interest will be capitalized when repayment begins.

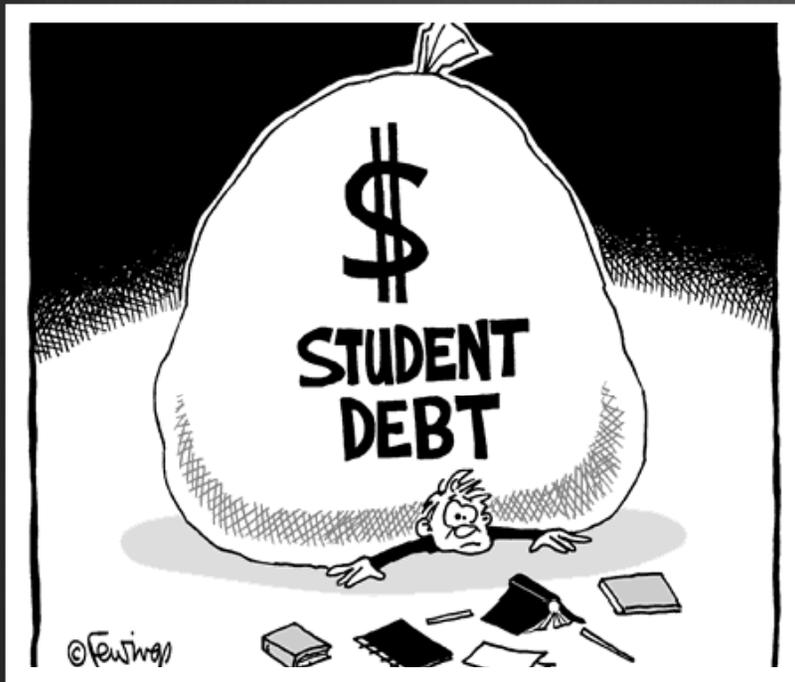


Postponement?

Grace Periods

PLUS Loans

There is no grace period for PLUS loans. Repayment on PLUS loans generally must begin within sixty days after the final loan disbursement for the period of enrollment for which the loan was borrowed.

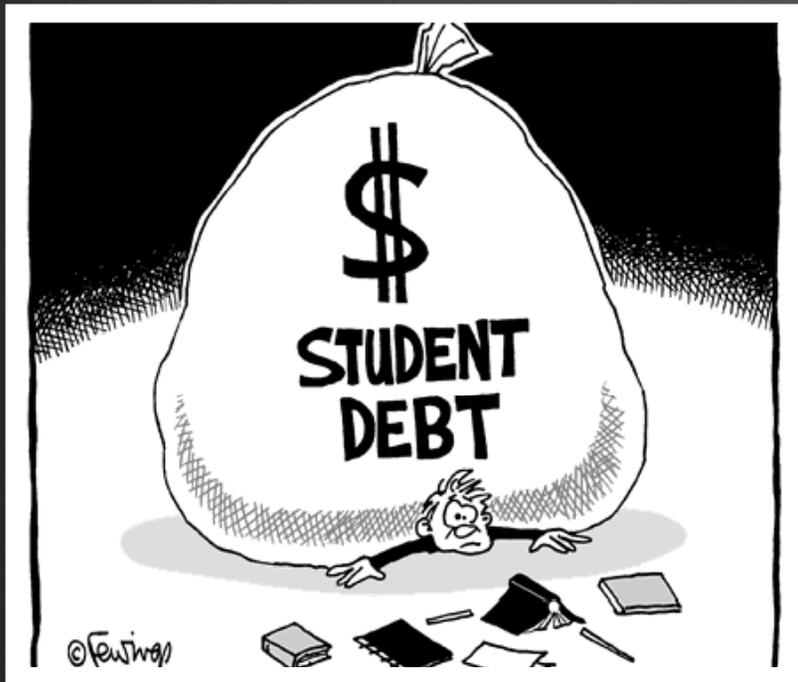


Postponement?

Grace Periods

Perkins Loans

The grace period for Perkins loans is nine months. Perkins loan borrowers attending less than half-time should check with their financial aid administrators to determine their grace periods. Perkins borrowers should not be charged interest during the grace period.

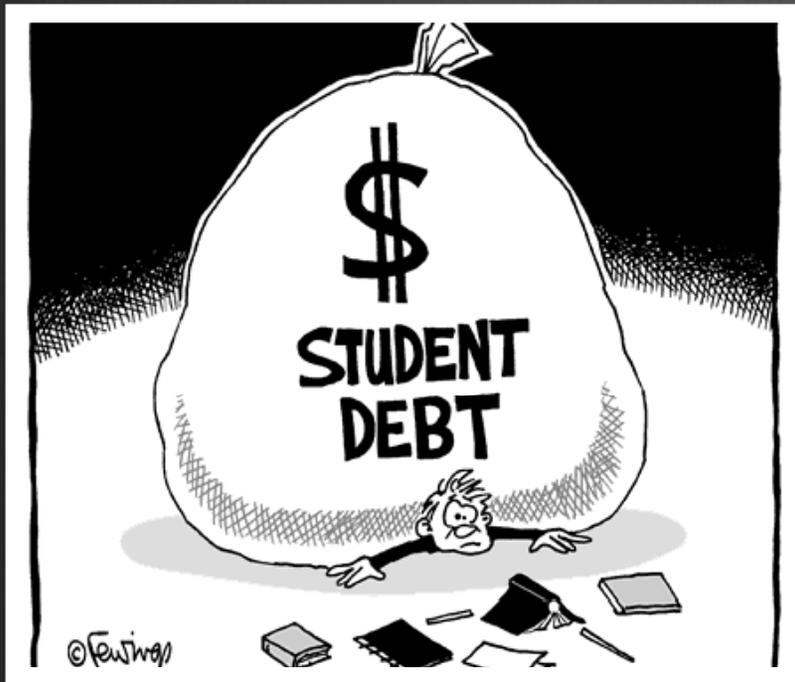


Postponement?

Grace Periods

Private Loans

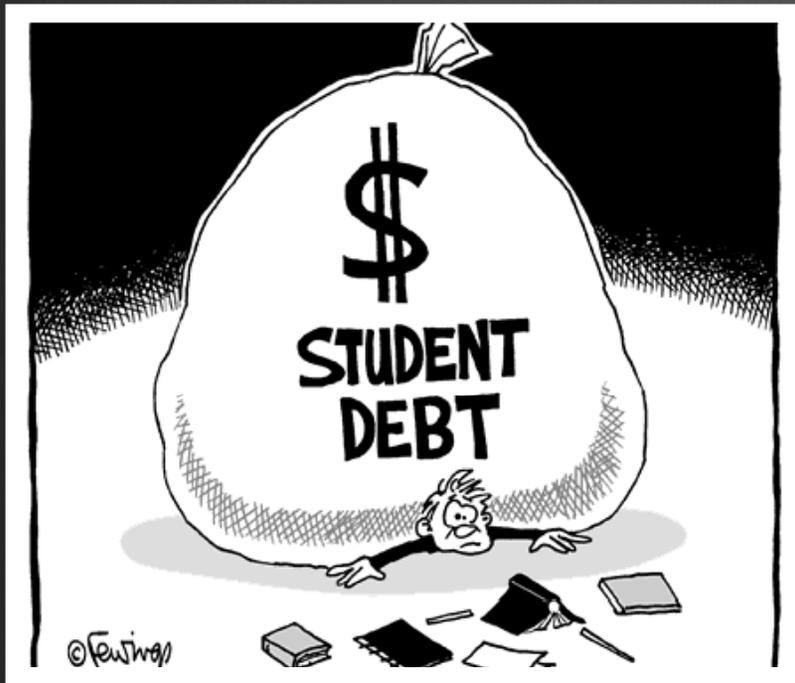
Private loans may also have grace periods. These are sometimes called “interim periods”. You should read your loan agreement carefully and ask your lender about when repayment begins. Interest will generally accrue while you are in the grace period. Once you enter repayment, the accrued interest will usually be capitalized, meaning that it will be added to your principal balance. You can also choose to pay the interest during the grace period and avoid capitalization.



Postponement?

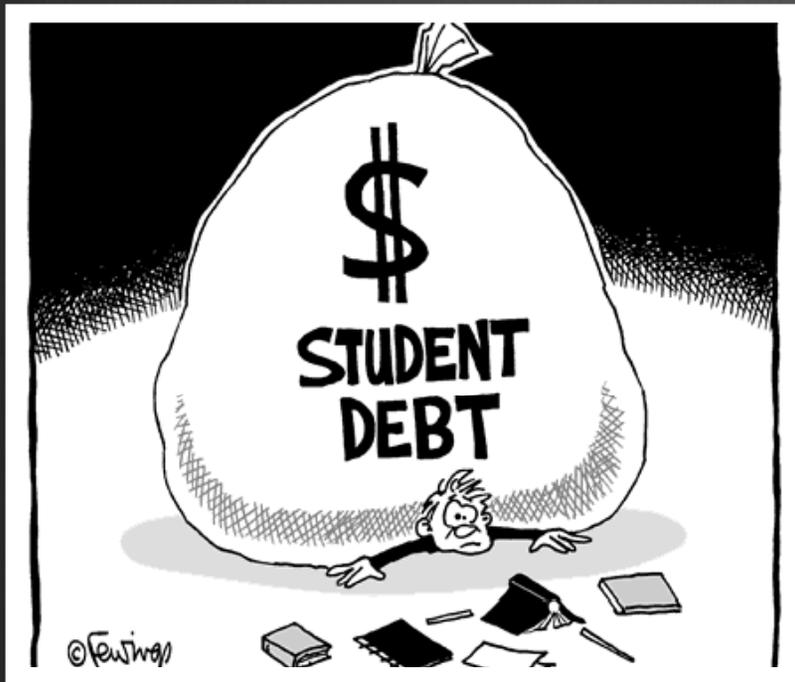
Deferments

Deferments allow you to postpone paying back your loans in certain circumstances. Interest does accrue on unsubsidized loans, but lenders may postpone charging interest and add it all to the loan principal after the deferment period is over. This is called capitalization. You are eligible for a deferment only if you have not yet defaulted on your loans.



Postponement?

Deferments



You can get the following deferments for most loans:

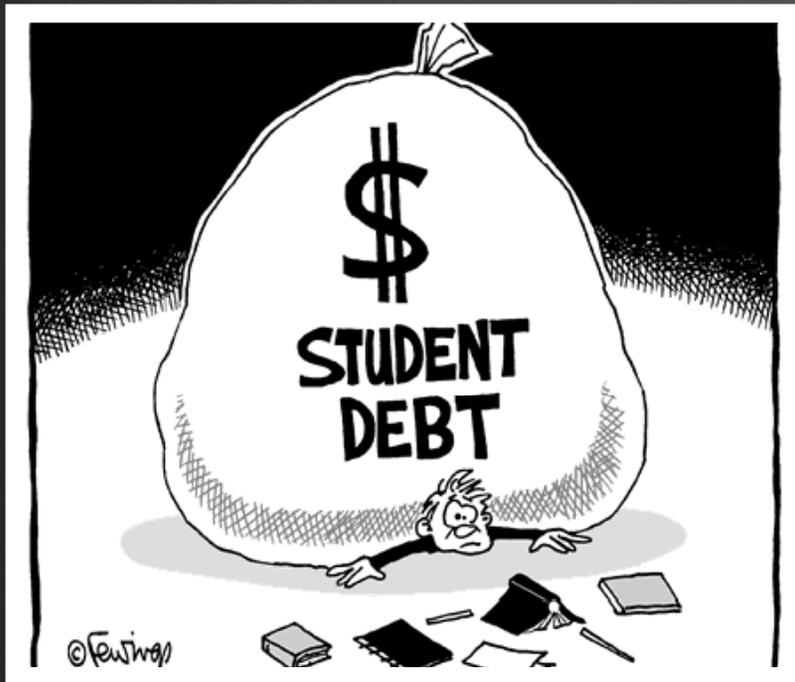
- In-school deferments for at least half-time study;
- Graduate fellowship deferments;
- Rehabilitation training program deferment;
- Unemployment deferment not to exceed three years;
- Economic hardship deferment, granted one year at a time for a maximum of three years; and
- Military deferment.

Postponement?

Deferments

There are a number of other deferments available in the Perkins program only, including:

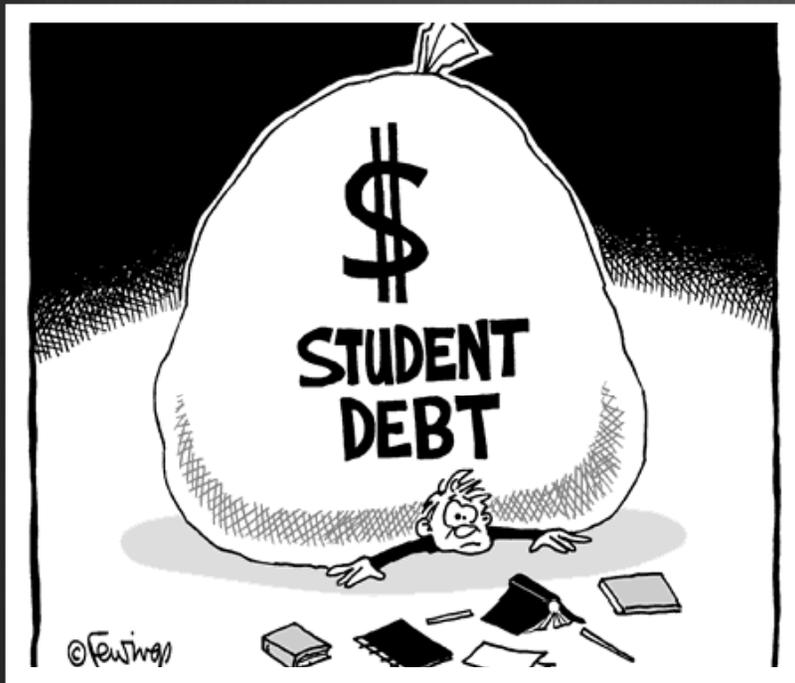
- Full-time service for law enforcement and correction officers, and
- Volunteer service such as the Peace Corps.



Postponement?

Deferments

The foregoing deferment options are for federal government loans. Many private lenders also offer deferments. These vary by program. Read your loan agreement carefully or ask your lender about options that may be available for your private loan.

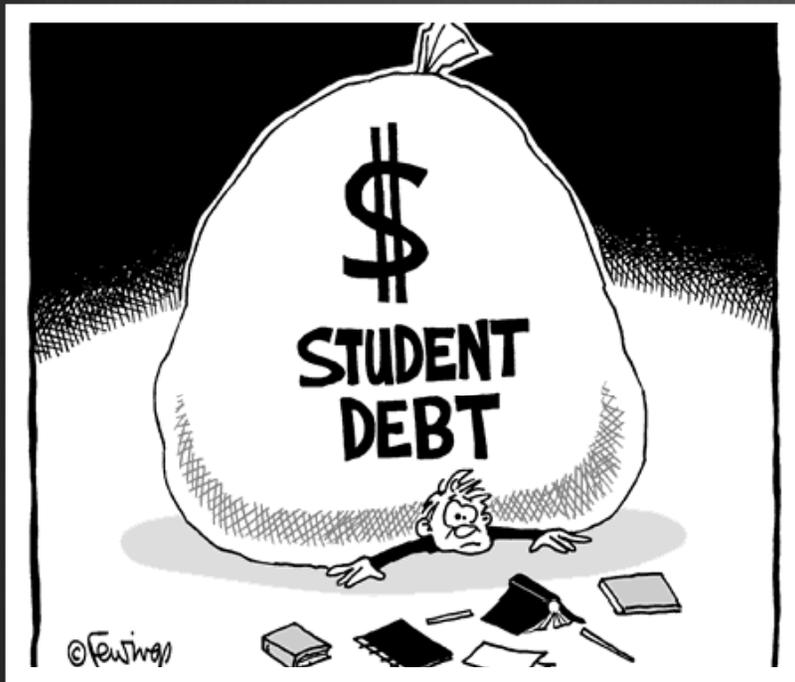


Postponement?

Economic Hardship Deferment

The economic hardship deferment is granted one year at a time for a maximum of three years. The first three qualification categories are “automatic” as long as you can provide supporting documentation. These three categories are:

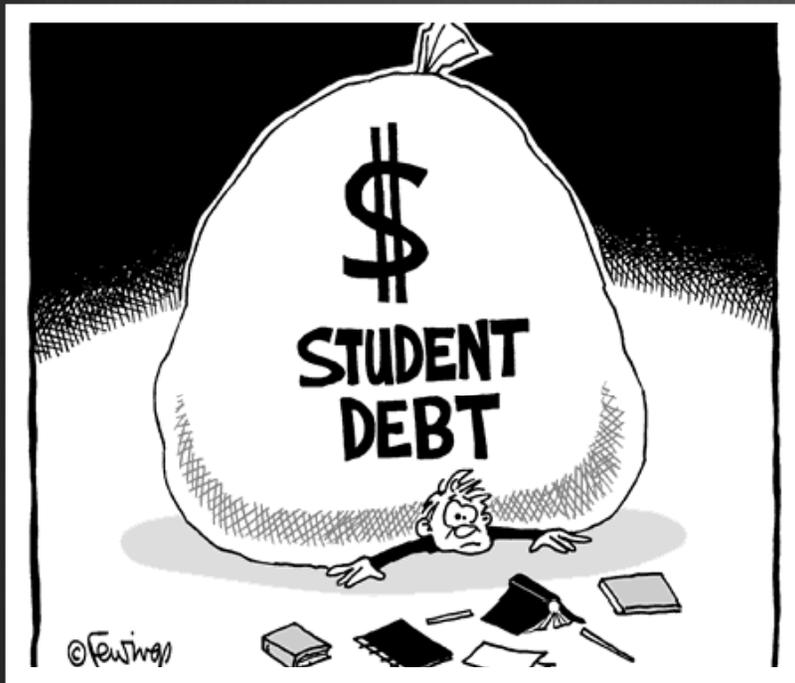
- Previous qualification for economic hardship deferment under another federal loan program.
- Receipt of federal or state public assistance benefits. This includes payments under a federal or state public assistance program such as TANF, SSI, Food Stamps, or state general public assistance.
- You qualify if you are serving as a Peace Corps volunteer.



Postponement?

Economic Hardship Deferment

You can also qualify based on your income if you are working full-time and your monthly income does not exceed the larger of A) The federal minimum wage rate or B) 150% of the poverty line income for your family size and state.

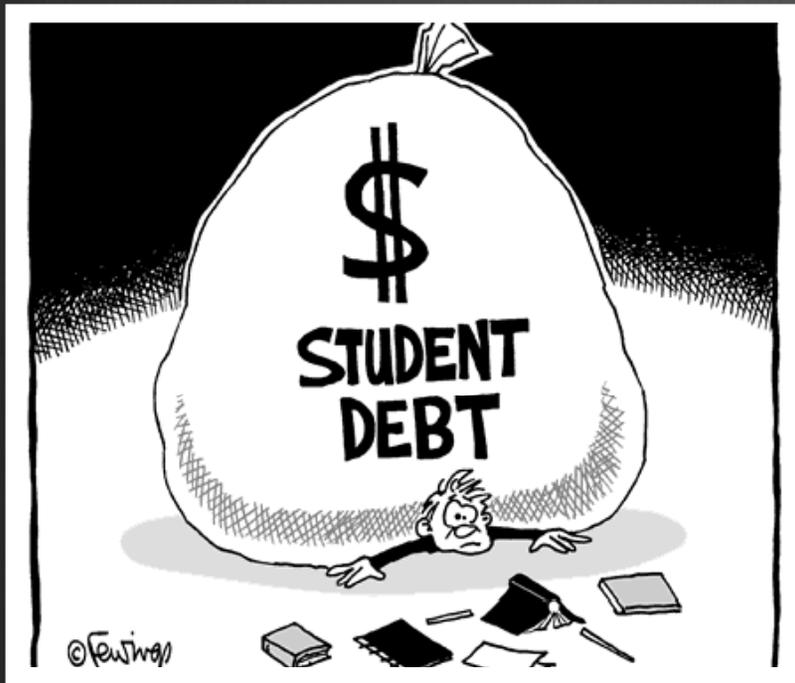


Postponement?

Unemployment Deferment

There are two ways to qualify for an unemployment deferment: (i) provide proof of eligibility to receive unemployment benefits and (ii) to show that you are conscientiously searching for full-time employment (defined as employment of at least thirty hours per week and expected to last at least three months).

This second category requires you to certify that you are diligently seeking but unable to find full-time employment and in most cases that you are registered with a public or private employment agency.



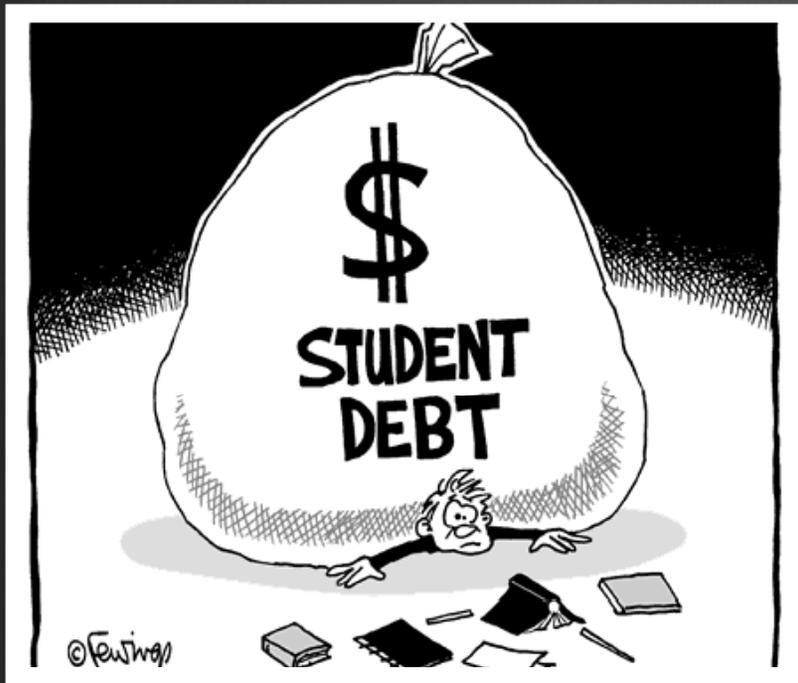
Postponement?

Unemployment Deferment

You may qualify for this deferment whether or not you have been previously employed.

The initial deferment period can be granted for a period of unemployment that begins up to six months before the loan holder receives your request and can be granted for up to six months after that date. To continue the deferment beyond the initial period, you must also certify that you have made at least six diligent attempts during the preceding six month period to secure full-time employment.

This deferment cannot be granted for more than three years.

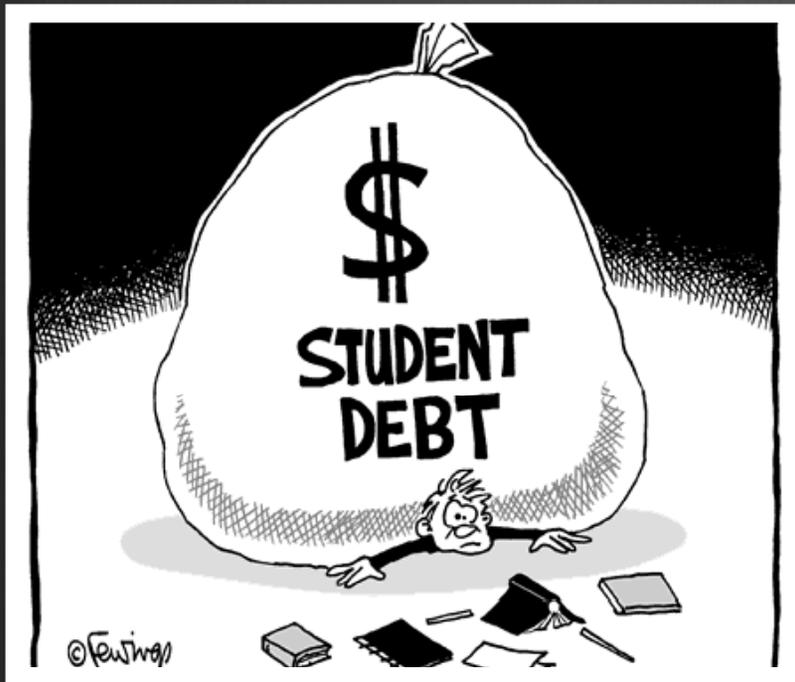


Postponement?

Military Service Deferment

This deferment is available in all three loan programs, FFEL, Direct and Perkins. It is available to military service members on active duty during a war, other military operation or national emergency, members of the National Guard called to active duty during a war, military operation or national emergency and reserve or retired members of the Armed Forces called to active duty during a war, military operation or national emergency.

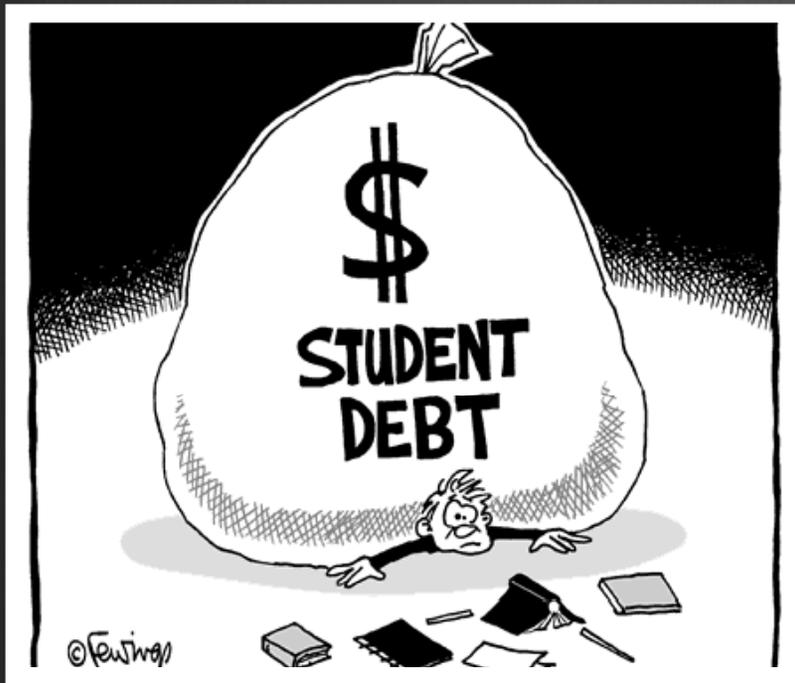
This deferment may be granted based on a request from the borrower or the borrower's representative.



Postponement?

Military Service Deferment

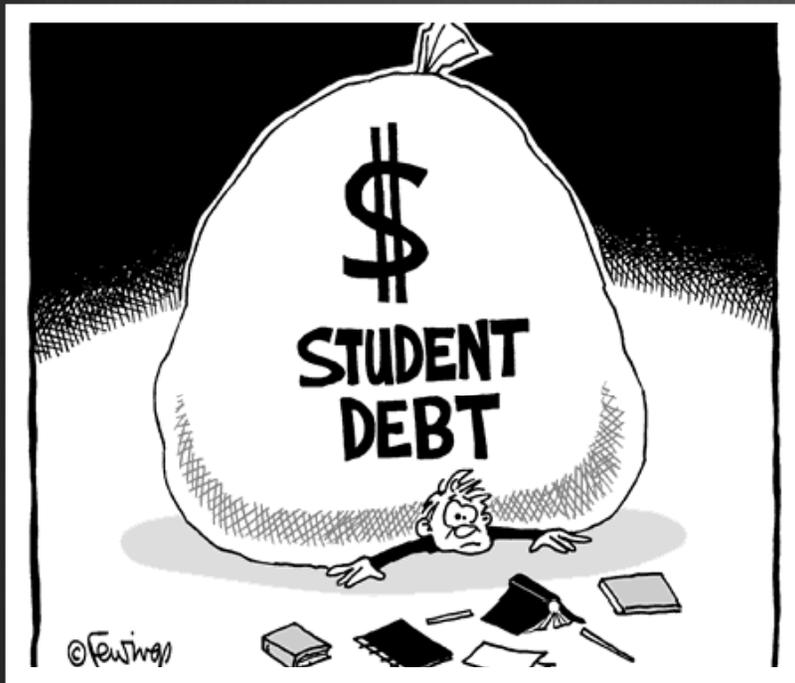
There is no time limit on the military deferment. The eligibility period ends 180 days after the borrower is demobilized from active duty service.



Postponement?

Active Duty Student Deferment

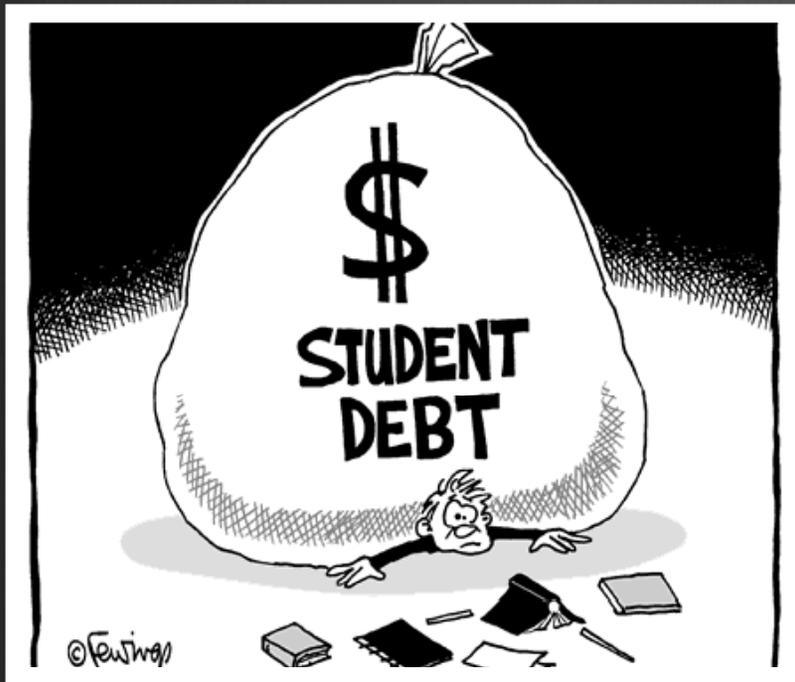
This deferment should really be called “Post-Active Duty Deferment” because it is for borrowers who are enrolled in school when they are called to active duty and plan to re-enroll after they have completed their service.



Postponement?

Active Duty Student Deferment

This deferment is available in all three loan programs, FFEL, Direct and Perkins. Eligible borrowers include members of the National Guard and reserve or retired members of the Armed Forces called to active duty at the time, or within six months prior to the time, that they were enrolled in school. These borrowers may receive deferments for up to 13 months following completion of active duty military service and any applicable grace period. The period expires at the earlier of a borrower's re-enrollment in school or the end of the 13 month period.



Postponement?

Active Duty Student Deferment

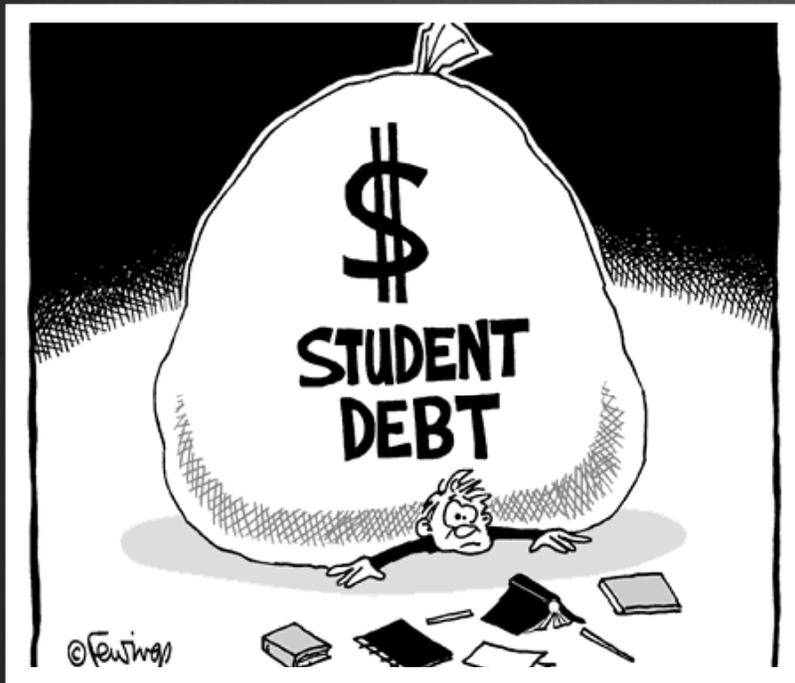
Similar to the military service deferment, the borrower must be on active duty to qualify for this deferment. Unlike the military service deferment, activation during a war or other military operation or national emergency is not required.



Postponement?

Forbearance

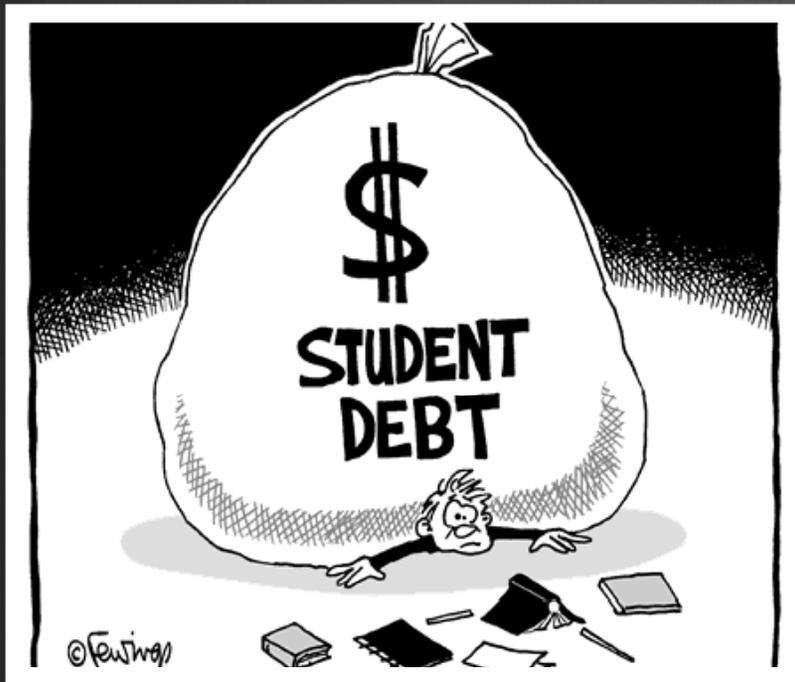
Forbearances also allow you to suspend payments and are available even if you are in default, but you will be charged interest during forbearance. Like deferments, forbearances allow you to temporarily postpone repayment. Forbearance may also involve an extension of time to make payments or acceptance of smaller payments. Unlike deferments, forbearances may be granted if you are already in default.



Postponement?

Forbearance

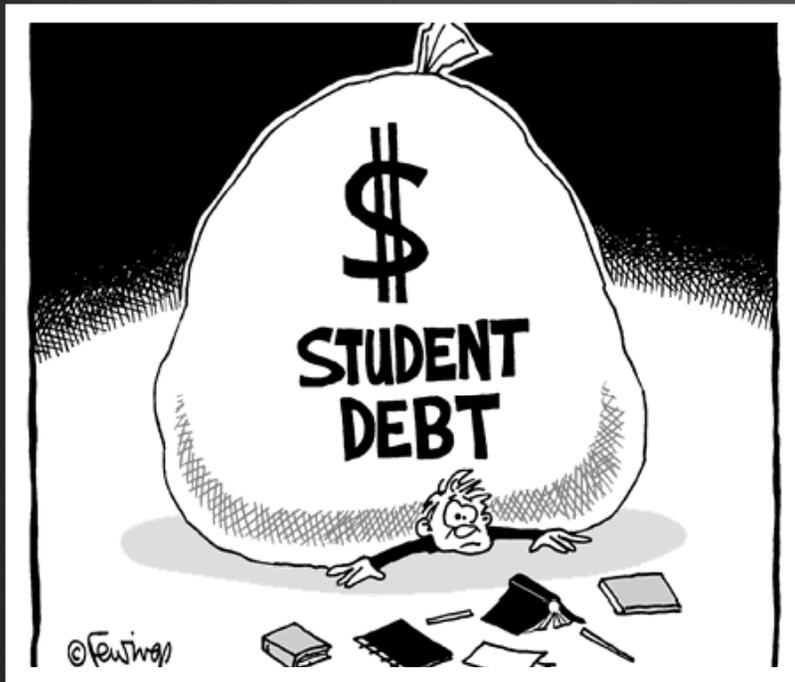
If you are delinquent but not yet in default, you can use a forbearance agreement to delay going into default. The nine month period before a delinquency is transformed to a default does not include periods of time when payments are subject to forbearance.



Postponement?

Forbearance

The FFEL regulations make a distinction between discretionary and mandatory forbearances. The Direct Loan program does not make this distinction.

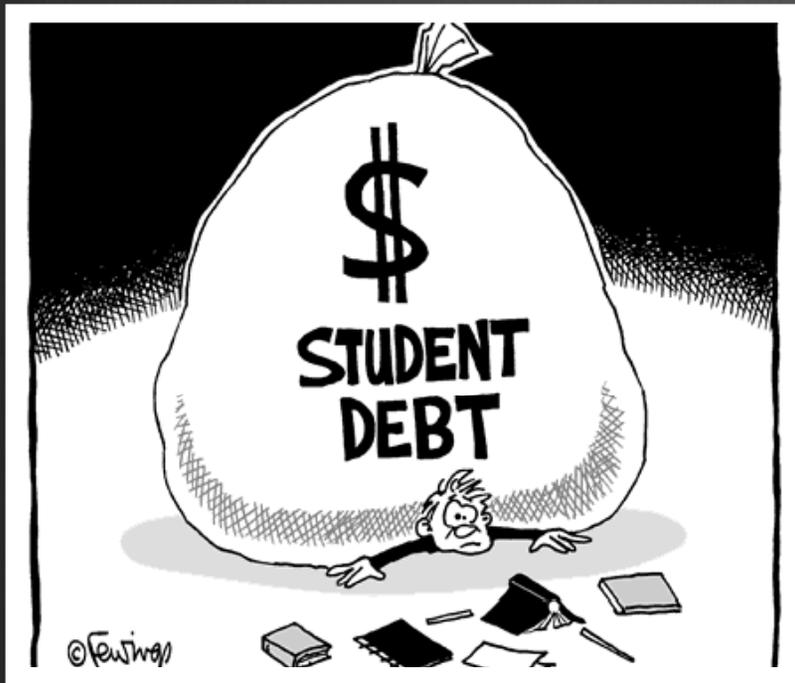


Postponement?

Forbearance

Forbearances for Poor Health

Both the FFEL and Direct Loan regulations provide for forbearances if you are in poor health or have other personal problems that affect your ability to make the scheduled payments. Forbearance for these reasons is discretionary under FFEL regulations. The forbearance is granted up to a year at a time, but there are no limits to the number of years this type of forbearance may be granted.

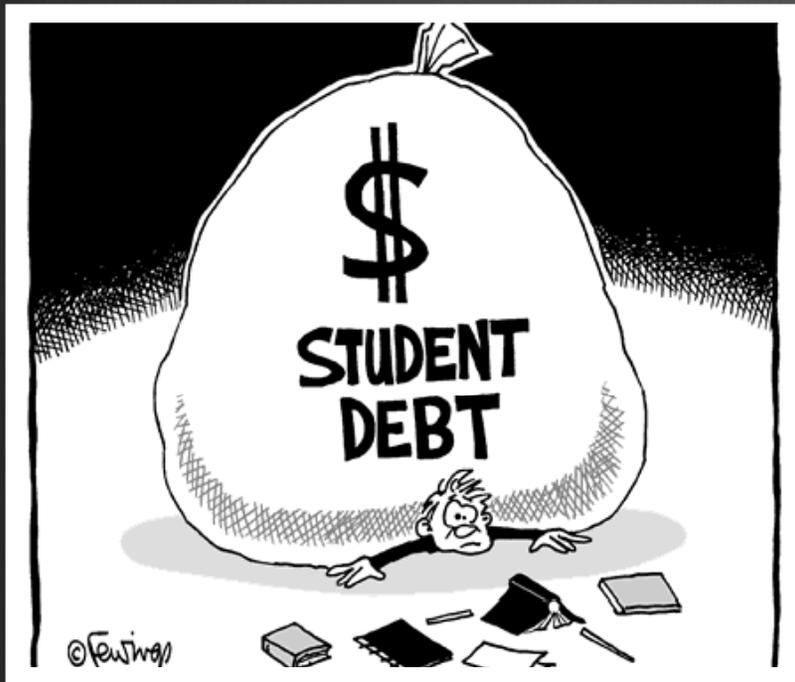


Postponement?

Forbearance

Administrative Forbearances

Both FFEL and Direct Loan regulations provide for administrative forbearances for various reasons such as while the lender is resolving a change in the loan's status or pending the resolution of a discharge application. With a few limited exceptions such as local or national emergencies, the FFEL administrative forbearances are discretionary.



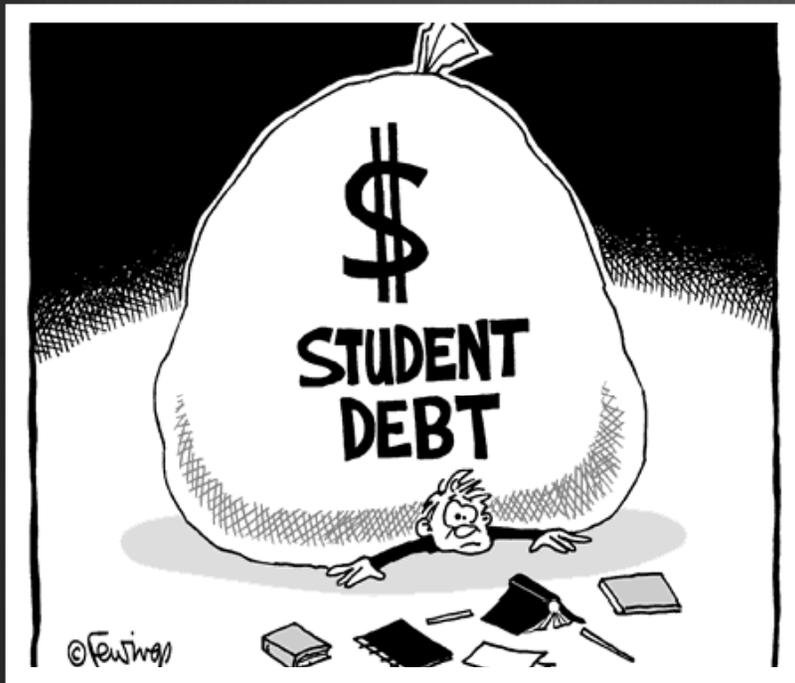
Postponement?

Forbearance

Mandatory Forbearance

The FFEL program provides for mandatory forbearances. The term “mandatory” refers to the lender’s obligation to grant you a forbearance, not your obligation to request one.

There are mandatory administrative forbearances for up to five years in cases where the borrower will not be able to repay the loan within the maximum repayment term. Interest is charged and capitalized on all loans during periods of forbearance.



Postponement?

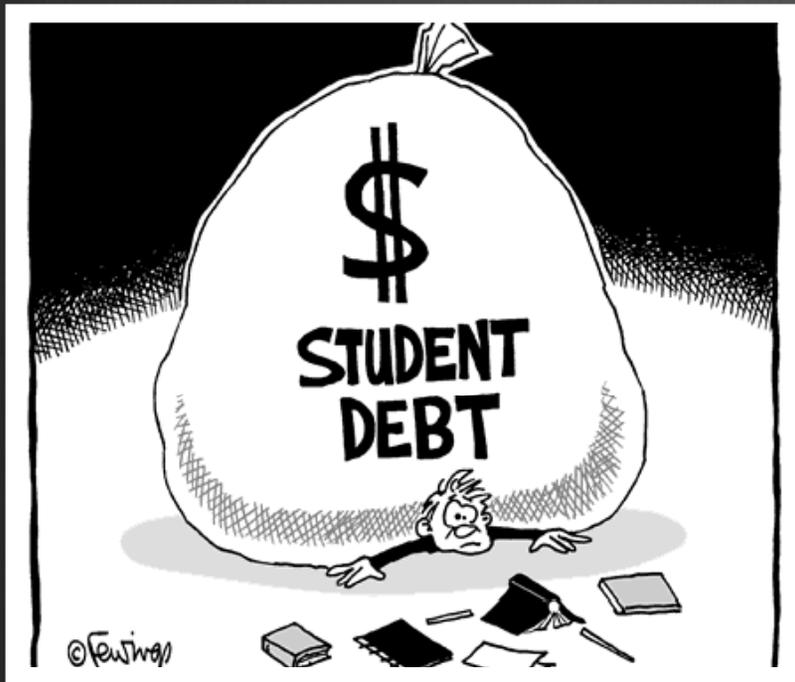
Forbearance

Mandatory Forbearance

In addition, FFEL and Direct Loan forbearances are mandatory in increments up to one year for periods that collectively do not exceed three years, if the amount of your monthly student loan payments collectively is equal to or greater than twenty percent of your total monthly income.

Forbearances are also mandatory for teachers who are performing teaching service that would qualify them for teacher loan forgiveness.

The Department of Education may also issue special forbearance guidance in disaster situations such as after the September 11 terrorist attacks or after natural disasters.

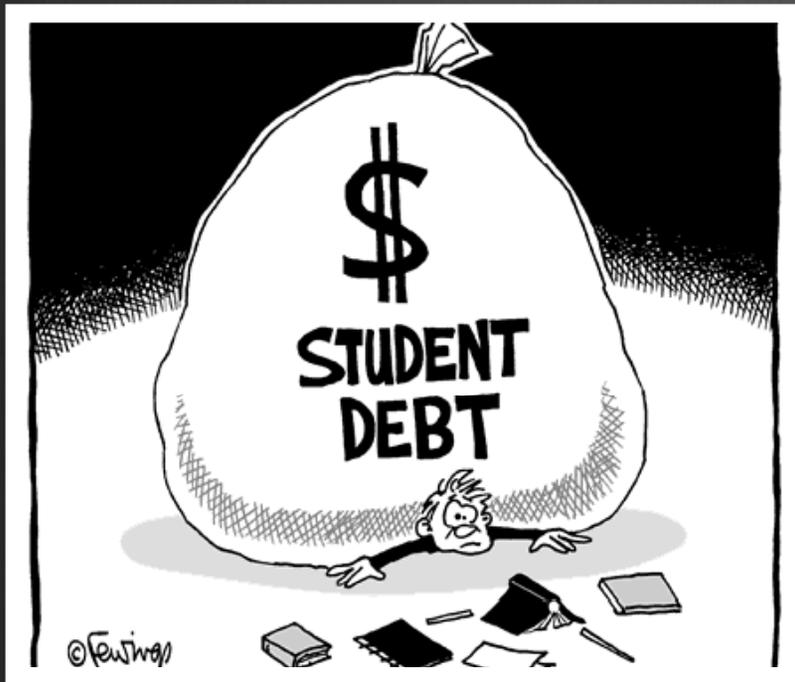


Postponement?

Forbearance

Private Loan Forbearance

Many private lenders also offer forbearances. Read your loan contract very carefully or ask your lender about these options. Some private lenders charge for forbearances. These types of charges should be explained in your loan agreement.

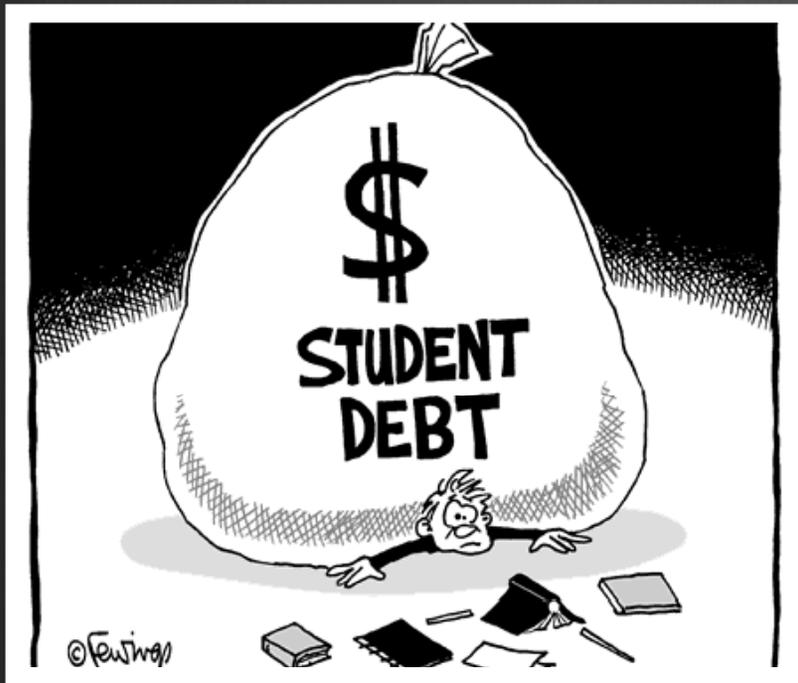


Postponement?

Special Programs for Military

Post 9/11 G.I. Bill

The “Post 9/11 G.I. Bill” provides significant educational benefits for service members on active duty and after active duty. Military service members who have served an aggregate of at least 90 days on active duty in the Armed Forces are eligible. The benefit amounts vary depending on the amount of service. Those who serve for 36 months are eligible for 100% of benefits.

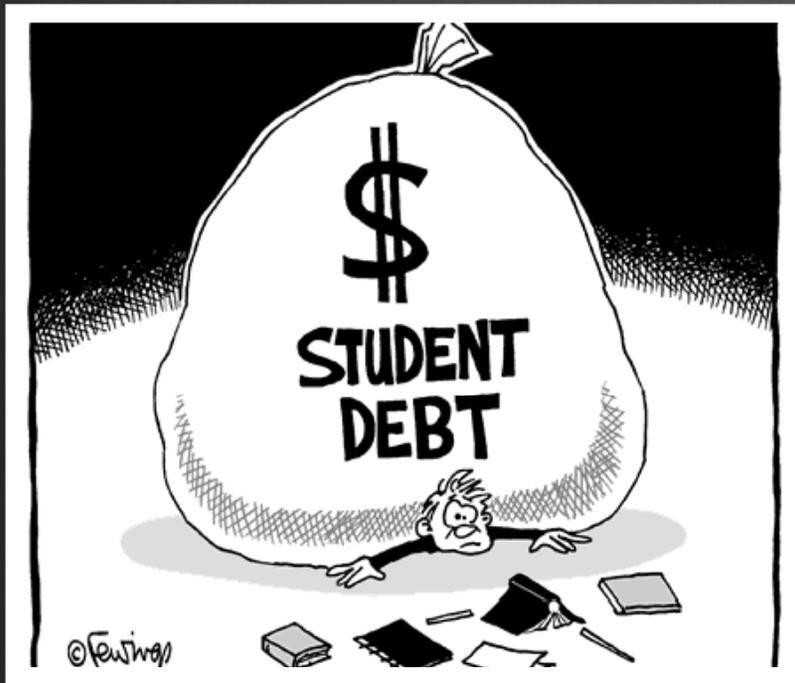


Postponement?

Special Programs for Military

Post 9/11 G.I. Bill

Service must have occurred on or after September 11, 2001. Service members who are serving on active duty are eligible as well as those who completed their service or were discharged or released. Only certain types of discharges and releases qualify, including honorable discharges or discharges or releases for certain medical conditions or hardships.

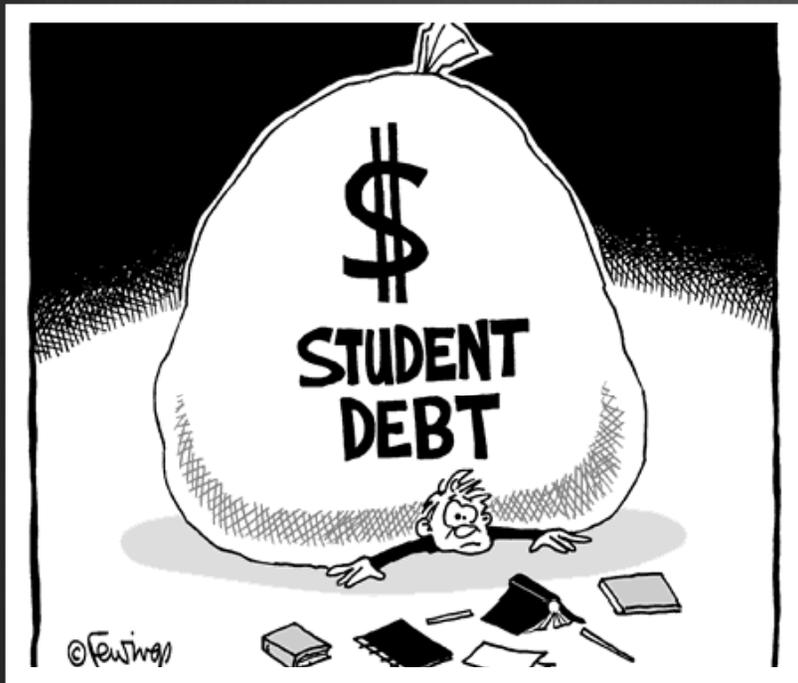


Postponement?

Special Programs for Military

Post 9/11 G.I. Bill

In order to qualify, students must be pursuing an approved program of education as defined in the law. Benefit amounts are equal to the charges for the program of education, except that the amount may not exceed the maximum amount charged for in-state undergraduate students in the state where the student is enrolled. Students may receive money not only for tuition, but in many cases for housing, books and supplies, and possibly even a relocation payment. In certain situations, this benefit may be transferred to the service member's spouse and one or more children.

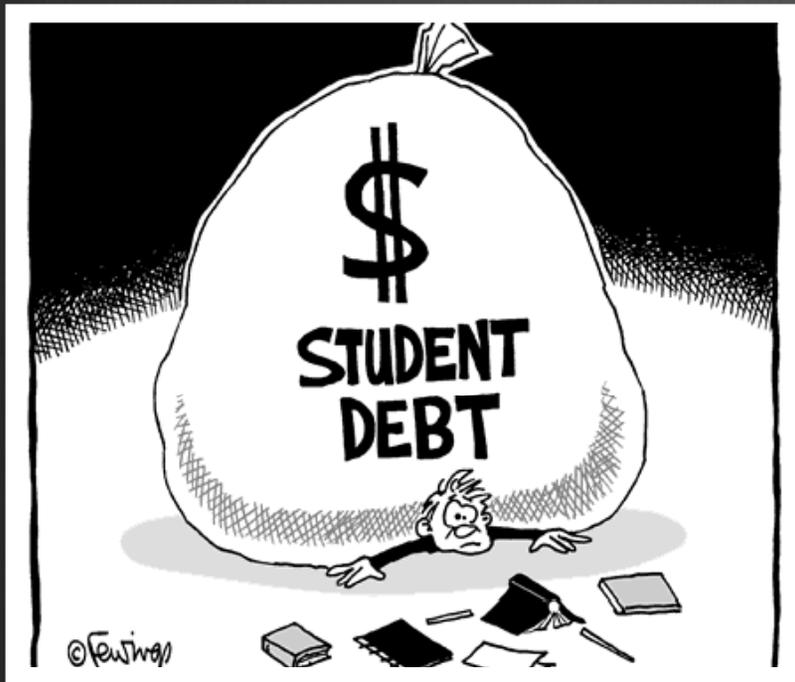


Postponement?

Special Programs for Military

Post 9/11 G.I. Bill

The time period to use these benefits expires at the end of the 15 year period beginning on the date of the last discharge or release from active duty.



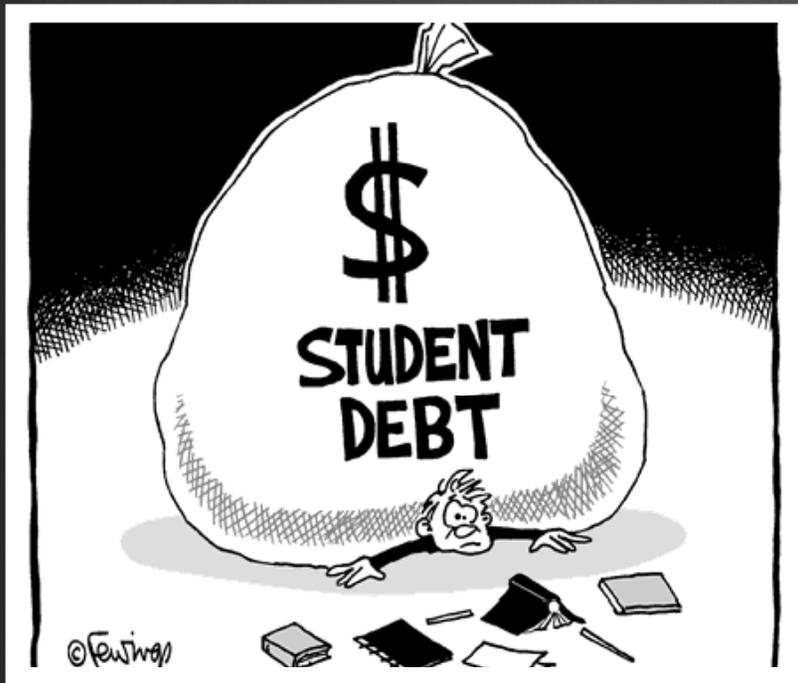
Cancellation?

Loan Cancellation

Regardless of whether you are in default, you should consider whether you can discharge your loan outside of bankruptcy.

It is only possible to cancel student loans without full repayment in very limited circumstances.

Cancellation (also called “discharge”) not only makes the loan obligation go away, but in most cases, the government must also give back any payments you have made (whether voluntarily or involuntarily) and help clean up your credit.



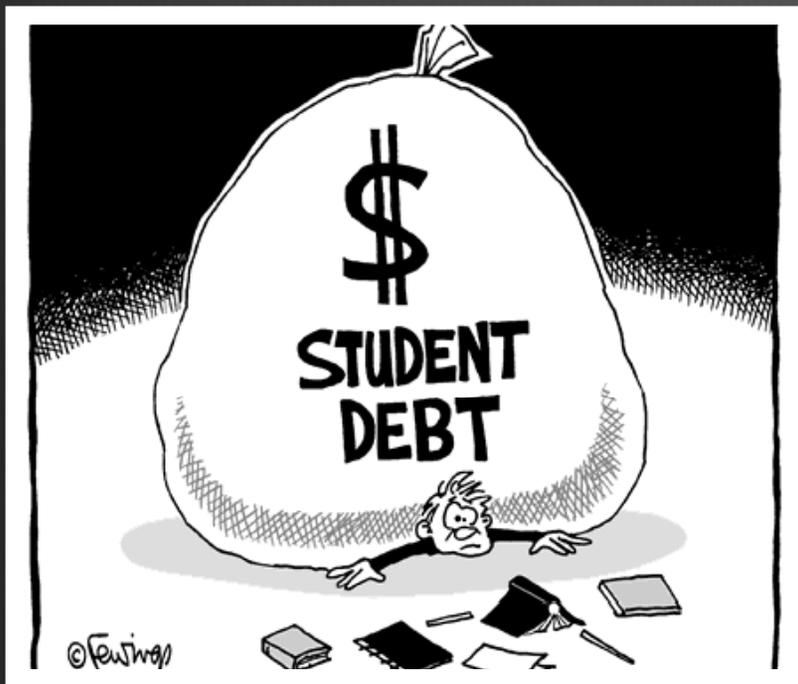
Cancellation?

Closed School

This discharge is available if you attended a school that closed while you were enrolled or if you withdrew 90 days before the school's closure. FFEL and Direct Stafford loans, PLUS, and Perkins loans are eligible.

You are eligible for a closed school discharge only if you were unable to complete the educational program due to the school's closure. If a school had a number of different branches, you must have been attending a branch that closed.

If the discharge is granted, you are no longer obligated to repay the loan or any charges or costs associated with the loan. In addition, you have the right to be reimbursed for all amounts paid on the loan, whether those payments were voluntary or involuntary. You are no longer in default on these loans and the loan holder must help clean up your credit history.



Cancellation?

False Certification

Ability to Benefit (ATB)

If you did not have a high school diploma or G.E.D. when you went to the school, the school had the responsibility to make sure you could benefit from the educational program, usually by giving an exam. This is called an “ability to benefit” exam. You can get the loan discharged if there were serious problems with the exam, including problems with the way it was administered or if the school did not use an approved exam.



Cancellation?

False Certification

Disqualifying Status

You are eligible for this discharge if, at the time of enrollment, you would not have been able to meet the state requirements for employment in the occupation for which you were being trained. The reasons for failure to meet the minimum requirements could be a physical or mental condition, age, criminal record or any other reason accepted by the Department of Education.



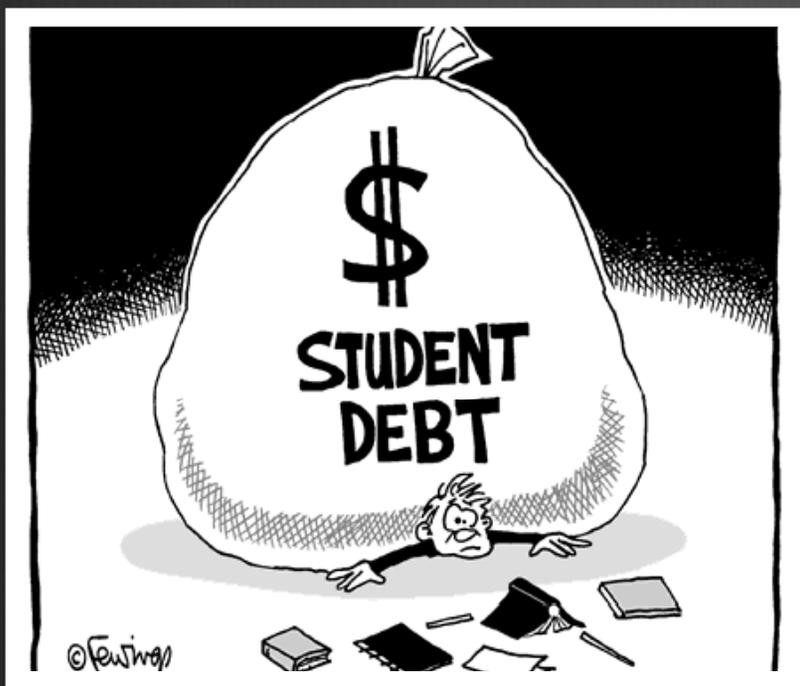
Cancellation?

False Certification

Unauthorized Signature or Unauthorized Payment

You are eligible for this discharge if the school forged your name on the loan papers or check endorsements. In order to qualify, you must not have received the proceeds of the loan.

This is a limited program. It does not apply in all cases where a signature was forged, only if someone affiliated with the school signed your name without authorization.

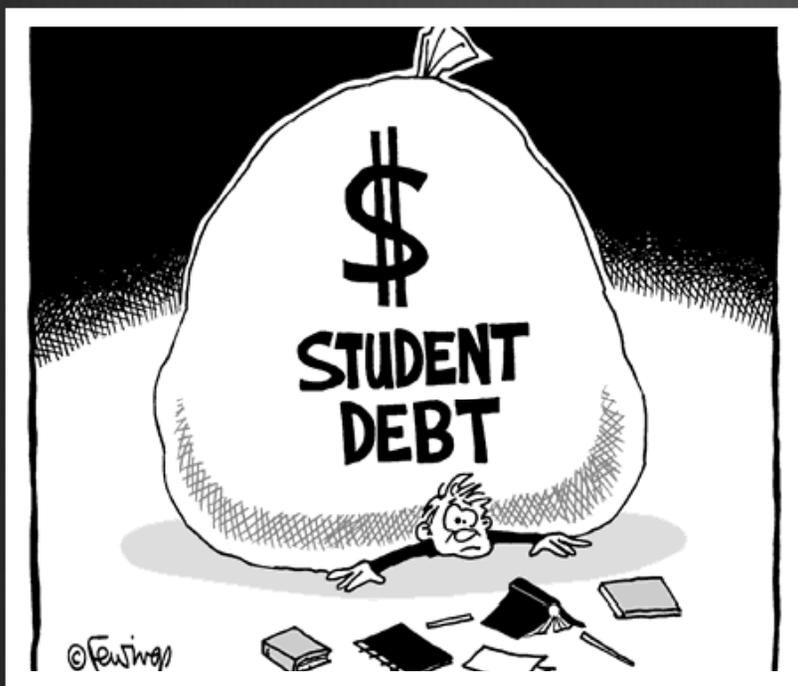


Cancellation?

False Certification

Identity Theft

There is another type of false certification discharge for borrowers who are victims of identity theft. In order to qualify, you must provide a copy of a court verdict or judgment that conclusively determines that you were the victim of a crime of identity theft.



Cancellation?

False Certification

Identity Theft

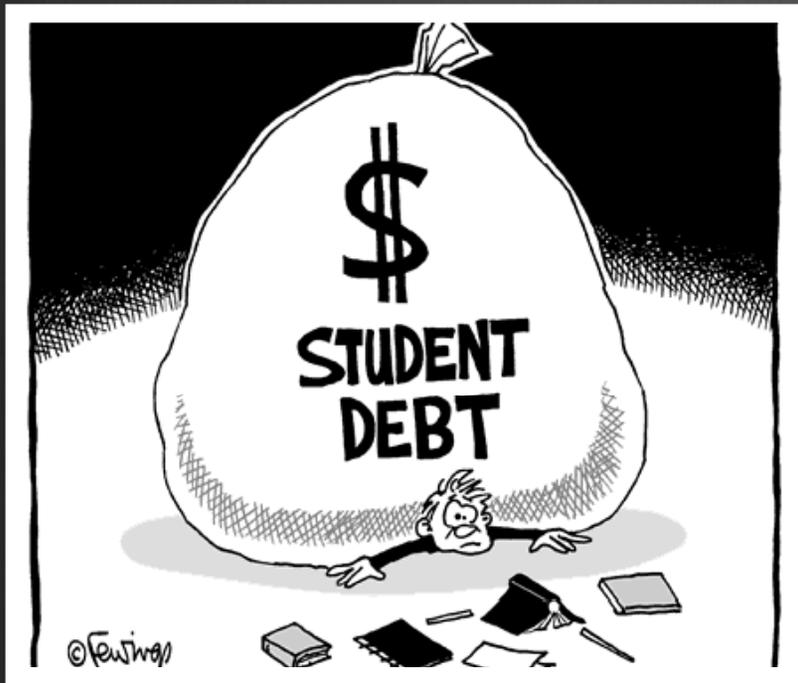
If you are an identity theft victim, you should also submit an identity theft report under the Fair Credit Reporting Act to your lender. This report must include a copy of an official report of identity theft filed with a law enforcement agency. Once you submit this identity theft report, your lender must suspend credit bureau reporting for a period of up to 120 days. During this time, the lender must investigate the claims and figure out whether the loan is enforceable. It is possible that the lender will find that the loan is unenforceable, even though the borrower does not qualify for a false certification/identity theft discharge. In these circumstances, the lender must report its findings to credit bureaus. The borrower should not be liable for the loan and the lender should stop trying to force payment.



Cancellation?

Unpaid Refund

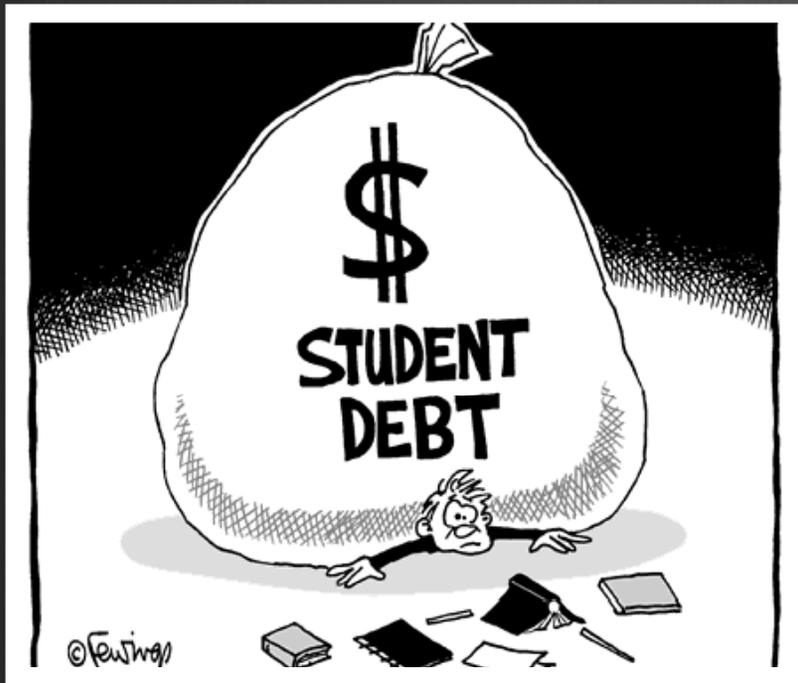
You do not always have to repay the full loan amount if you left school early. If you went to school for less than 60% of the loan repayment period, you should have received a refund for at least some of what you owed on your loan. If you left school early, but you still owe a lot in loans, it is possible that you should have received a full or partial loan refund. If you did not get a refund that you were entitled to, you can apply for an unpaid refund cancellation.



Cancellation?

Unpaid Refund

If you never received an owed refund, you are eligible to reduce your student loan obligation by the amount that should have been refunded plus interest and related charges. If you were owed a refund for less than what you borrowed, you will only get the amount of the refund discharged and you will still owe the rest. Borrowers who completed 60% or more of the loan period are not entitled to refunds. On the other hand, borrowers who never attended classes or who attended for a very short time should be able to get a complete cancellation.

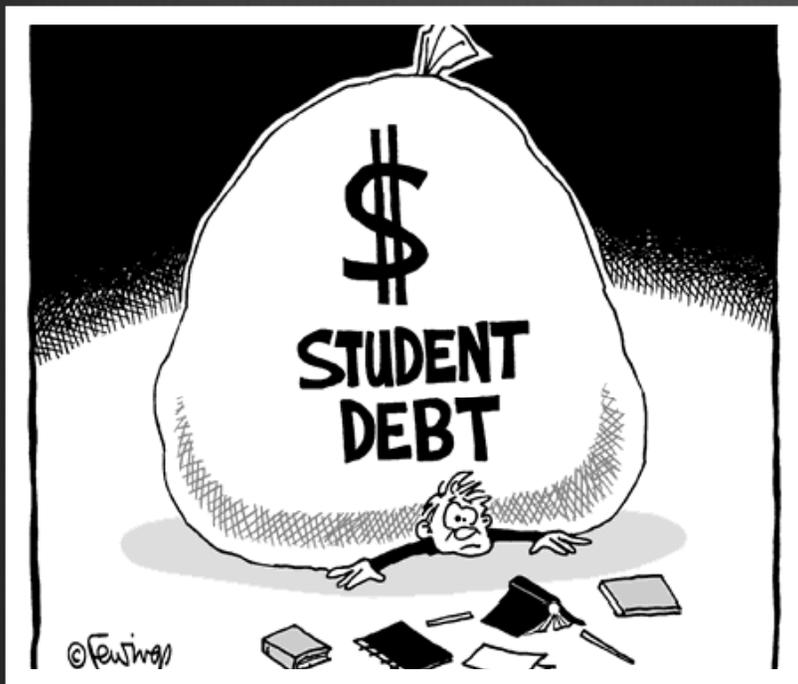


Cancellation?

Disability or Death

There is a discharge program for borrowers who become very seriously disabled after attending school. Your student loans will also be discharged if you die.

Private student loans do not have these protections. You can ask your private lender for relief, but these lenders are not required by law to help you.

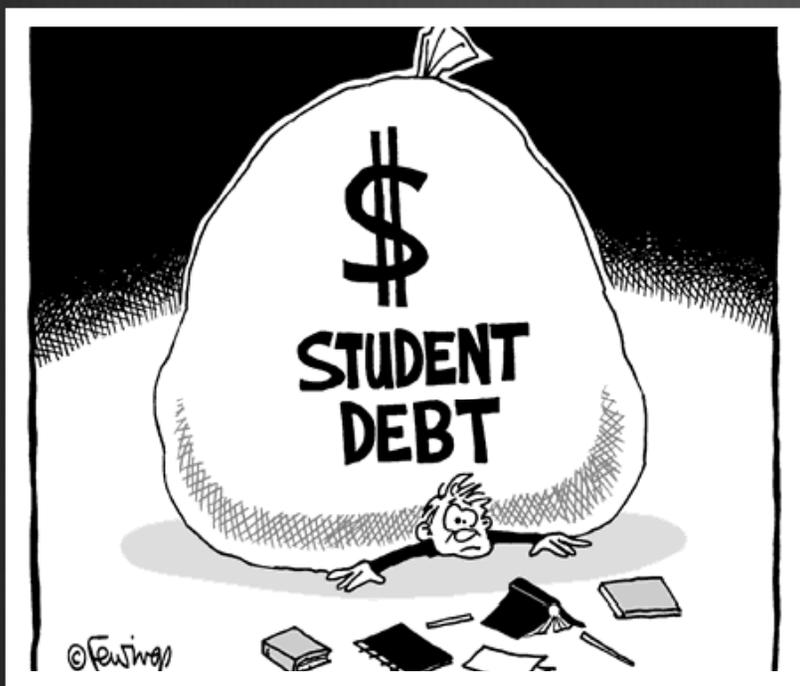


Cancellation?

Disability or Death

Total and Permanent Disability

This discharge requires certification from a doctor that you are unable to work and earn money because of an illness or injury that is expected to result in death, last for a continuous period of not less than 60 months or can be expected to last for a continuous period of not less than 60 months (5 years). In addition, veterans who have been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected condition qualify for this discharge without having to provide additional documentation from a doctor.

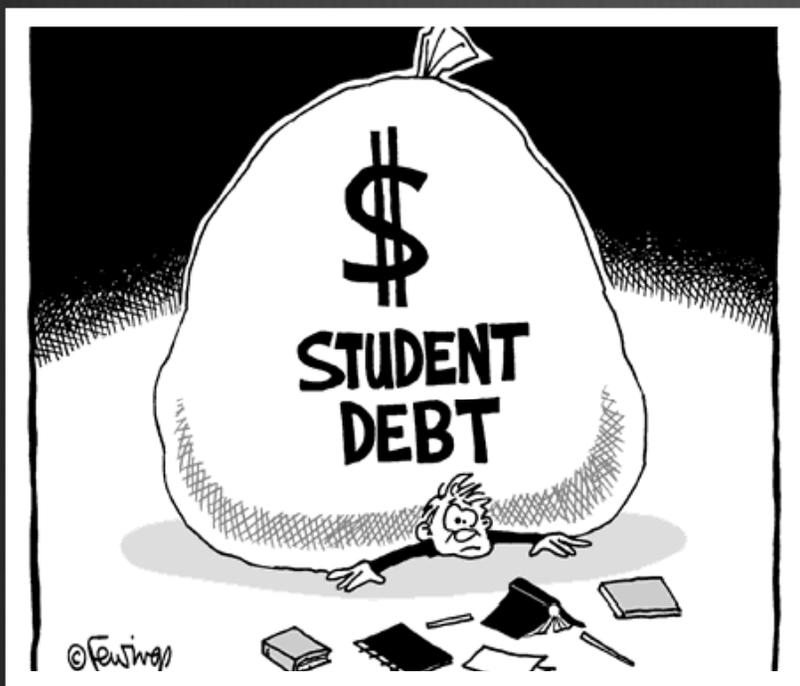


Cancellation?

Disability or Death

Total and Permanent Disability

FFEL, Direct and Perkins loans are eligible for this discharge. Parents with PLUS loans may apply for discharge based on their own disabilities, not those of their children. If two parents have a PLUS loan and only one becomes disabled, the other parent remains obligated to repay the loan.



Cancellation?

Disability or Death

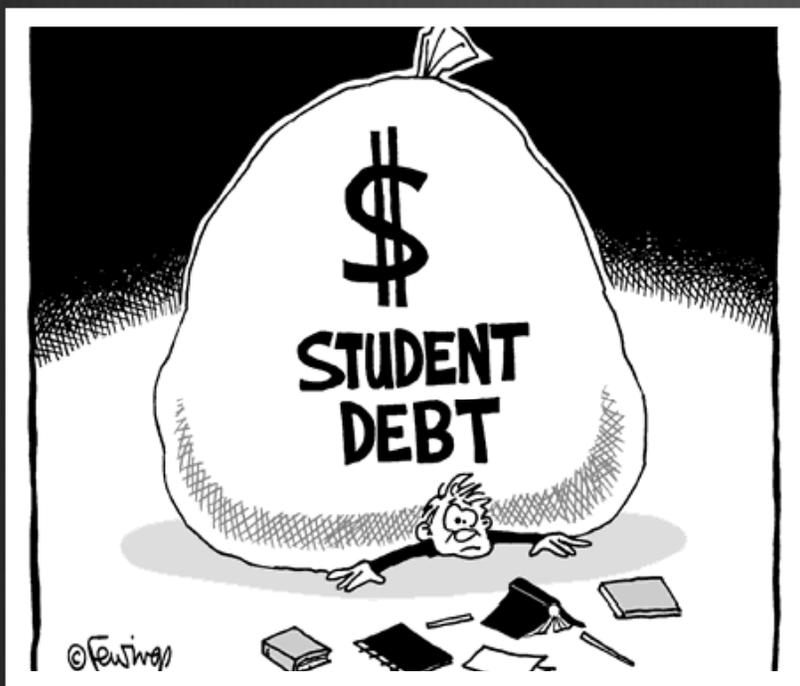


Your government loans will not survive your death. This means that your estate will not have to pay back your student loans. Also, the death of both parents with a PLUS loan (assuming both took out the loan) is grounds for the “death discharge.” The death of only one of the two obligated parents does not cancel a PLUS loan. A parent can also discharge a PLUS loan if the student for whom the parent received the loan dies.

Cancellation?

Disability or Death

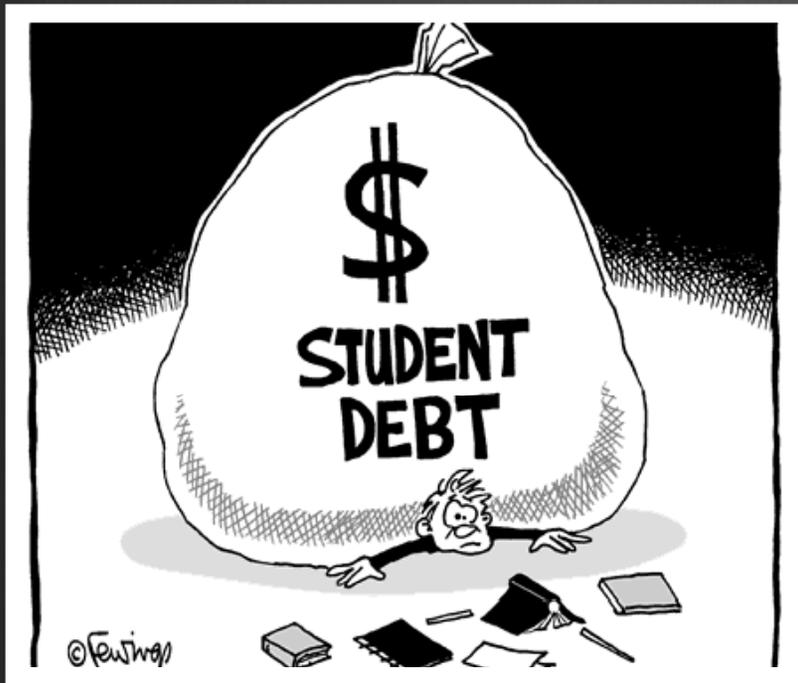
WARNING FOR PRIVATE LOAN BORROWERS: There is no administrative discharge for private student loans when the borrower dies. Private loan debts will be handled the same way as other debts. That means that they will be part of the borrower's estate. This estate settlement process (also called probate) varies by state.



Cancellation?

Career Related

PUBLIC SERVICE CANCELLATION



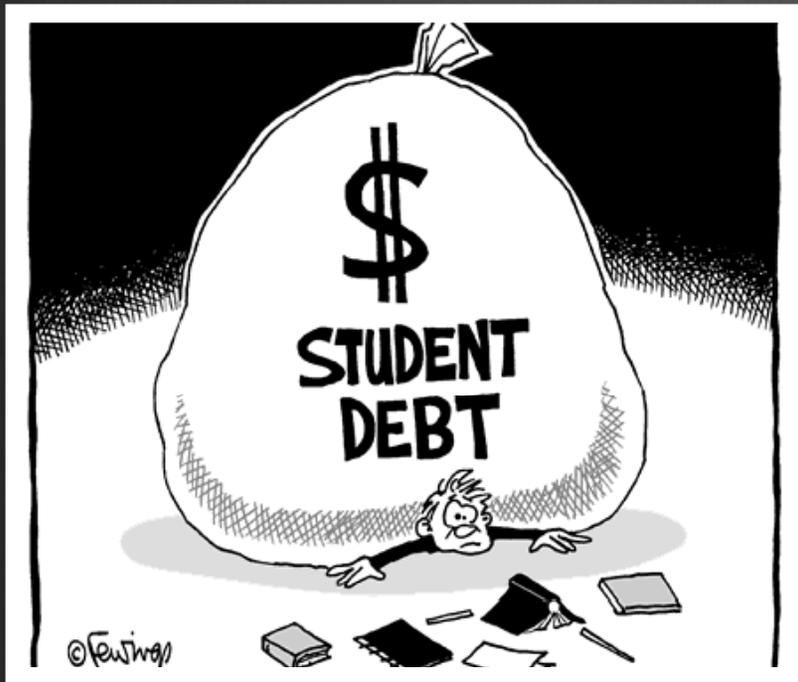
This program is available to Direct Loan borrowers that work in public service jobs for ten years and repay their loans through an eligible repayment plan. Any remaining balance is then canceled after the ten years of service is completed. This program will only benefit borrowers who still owe money on federal loans after ten years of public service employment. The program applies only to Direct loan borrowers, but it covers all types of Direct loans, including Stafford, PLUS and consolidation loans. In order to qualify, you must not be in default and you must have made 120 monthly payments (10 years of payments) on your loans AFTER October 1, 2007. You must be employed in a public service job at the time of the forgiveness and must have been employed in a public service job during the period in which you made each of the 120 payments.

Cancellation?

Career Related

PUBLIC SERVICE CANCELLATION

Jobs with federal, state, local or tribal government organizations, public child or family service agencies, 501(c)(3) non-profit organizations, or tribal colleges or universities should be considered “public service jobs.” Government employers include the military and public schools and colleges. Time spent serving in a full-time Americorps or Peace Corps position will also count toward the ten year repayment requirement.

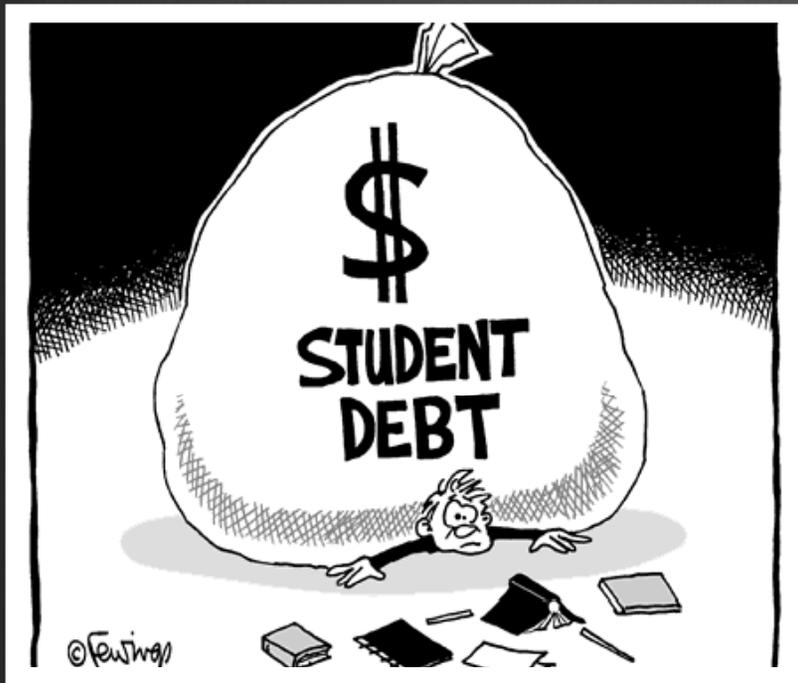


Cancellation?

Career Related

PUBLIC SERVICE CANCELLATION

The time you spend in the Peace Corp will count only if you 1) do not choose to get an economic hardship deferment and make scheduled payments during your service or 2) make a lump sum payment on your loan from the Peace Corps transition allowance no later than six months after you receive the allowance.



Cancellation?

Career Related

PUBLIC SERVICE CANCELLATION

If you don't meet these criteria, you may still be eligible in certain circumstances. You should qualify if you are working for certain other private organizations that provide any of the following services: emergency management; military services; public safety; law enforcement; public interest law services; public child care; public service for individuals with disabilities and the elderly; public health; public education; public library services; and school library or other school-based services. Not all private organizations providing these services will qualify. Businesses organized for profit, labor unions, partisan political organizations, organizations engaged in religious activities (unless the qualifying activities are unrelated to religious instruction, worship services or any form of proselytizing) are excluded.

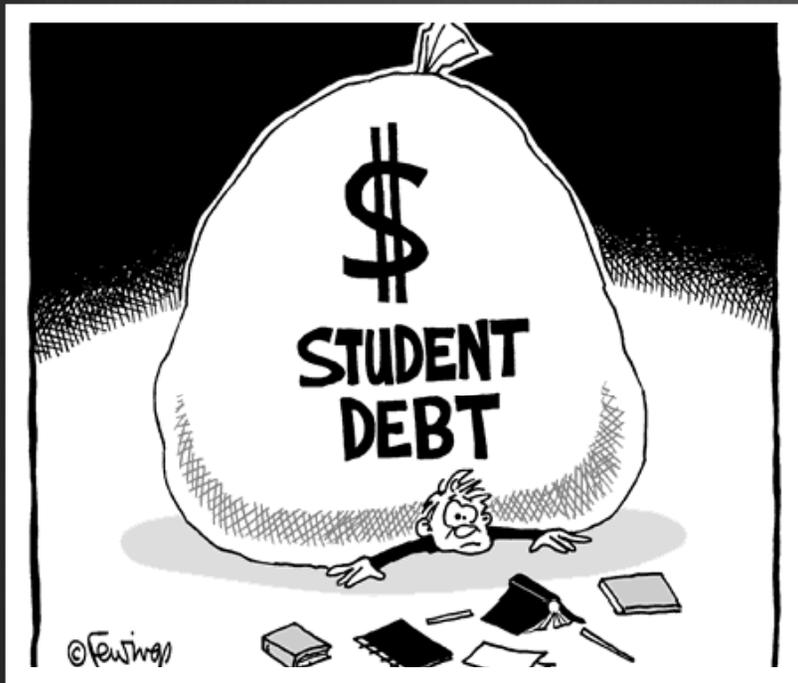


Cancellation?

Career Related

PUBLIC SERVICE CANCELLATION

The law also states that the public service job must be “full-time.” This is defined as working in qualifying employment in one or more jobs for the greater of an annual average of at least 30 hours per week or the number of hours the employer considers full-time (unless you have two or more employers). There is no requirement that you must work in the same public service job for the entire ten year period. There is also no requirement that the ten years of public service be consecutive.



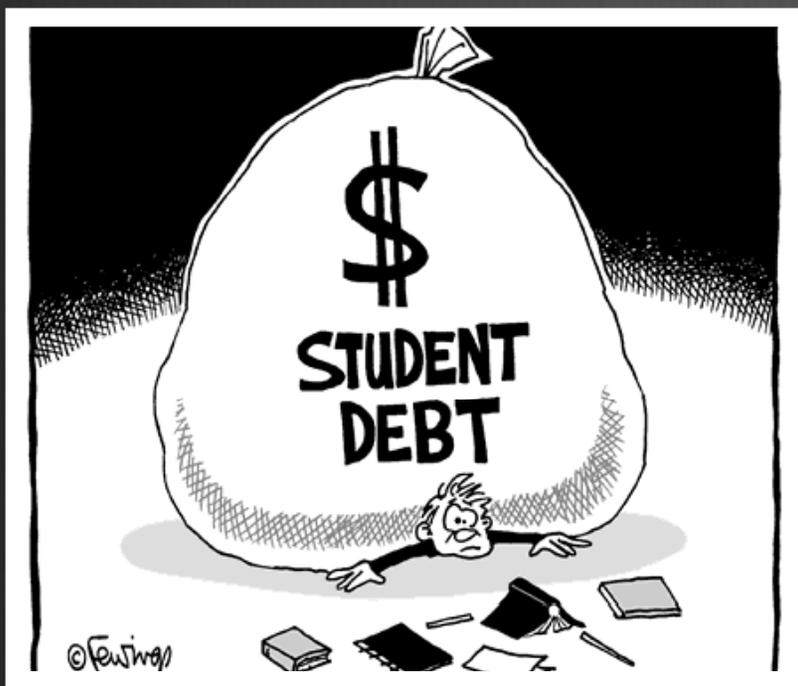
Cancellation?

Career Related

TEACHERS

Perkins loans may be fully canceled for full-time teachers working at low-income schools or teaching certain subject areas.

This applies to FFEL Stafford Loans, Direct Subsidized and Unsubsidized Loans, and in some cases, Consolidation Loans. Up to \$5,000 may be canceled. The limit is \$17,500 for borrowers who teach five consecutive years as highly qualified math or science teachers in eligible secondary schools or as special education teachers in eligible elementary or secondary schools. Teachers who are employed by educational services agencies are also eligible.

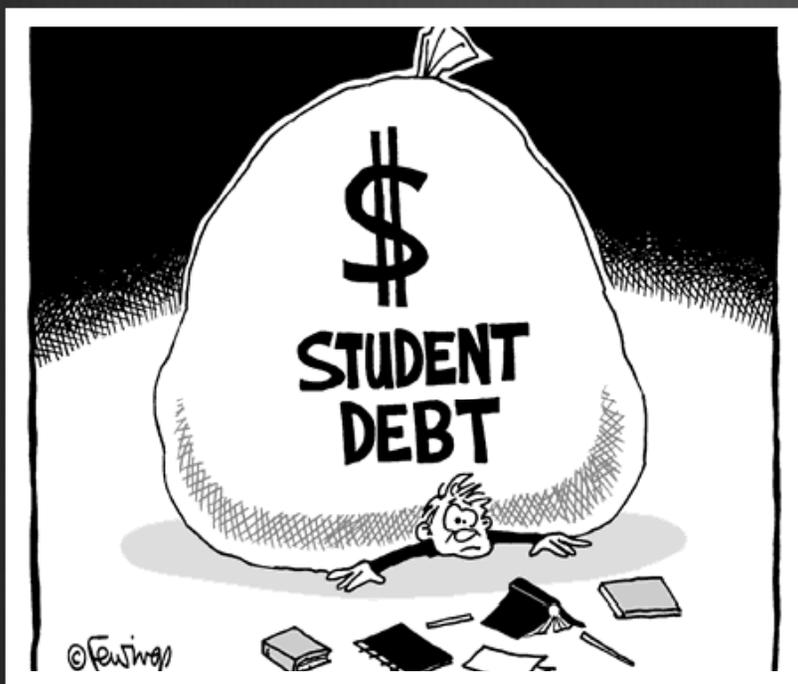


Cancellation?

Career Related

TEACHERS

There is also a teacher grant program. This program (called TEACH GRANTS) is not tied to financial need and provides up to \$4,000 annually to students who are enrolled in an eligible program and who agree to teach full-time in a high-need field at a public or private elementary or secondary school that serves low-income students. Recipients of these grants must teach for at least four years within eight years of completing the program for which the TEACH Grant was awarded.

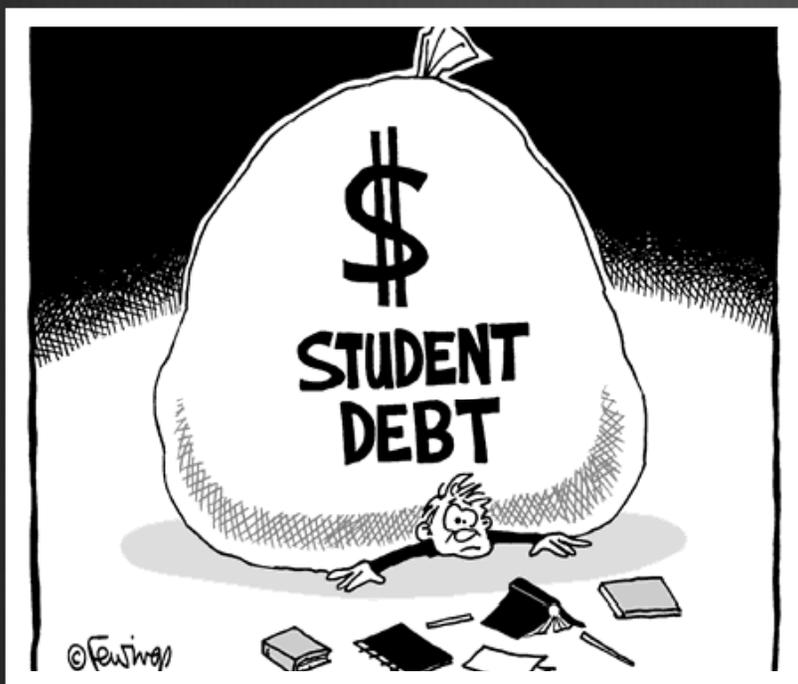


Cancellation?

Career Related

The Higher Education Opportunity Act created a few new career-related cancellation programs. Key programs include:

A program of *loan forgiveness for service in areas of national need*. Borrowers must be employed full-time in these areas and not in default. Borrowers can apply for forgiveness of not more than \$2,000 of the outstanding obligation after the completion of each school, academic or calendar year of employment up to a maximum amount of \$10,000. No borrower may receive forgiveness for more than five years of service.



Cancellation?

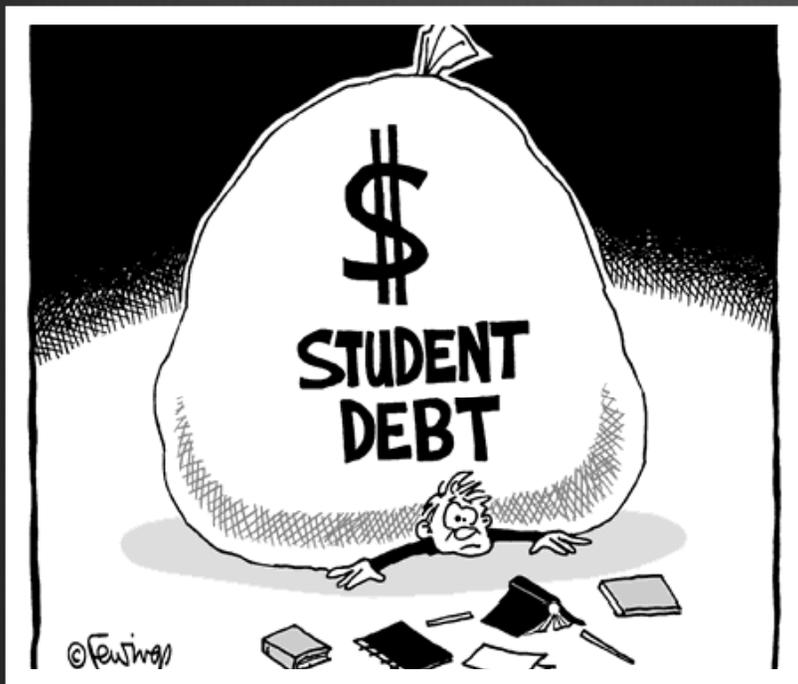
Career Related

Loan Repayment for Civil Legal Assistance Attorneys. Borrowers are required to enter into written agreements that they will remain employed as civil legal assistance attorneys for a required period of not less than three years, unless involuntarily separated from employment. The Department of Education assumes the obligation to repay the student loan by direct payments on behalf of the borrower to the loan holder, except that the amount assumed shall not exceed \$6,000 in any calendar year or an aggregate total of \$40,000.



Cancellation?

PERKINS LOANS PROGRAMS



Perkins Loans may be completely canceled in certain circumstances, including if you are a:

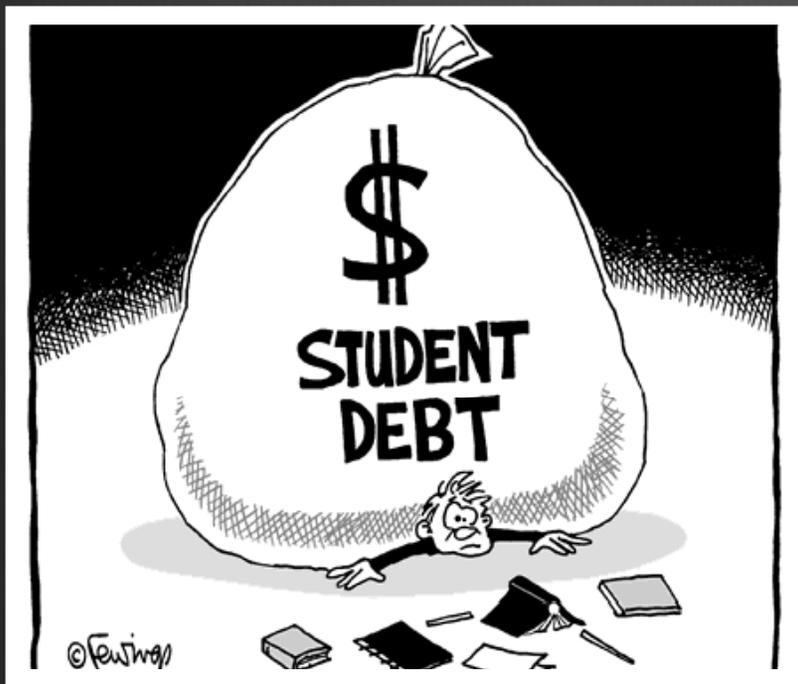
- Full-time teacher in a designated elementary or secondary school serving students from low-income families;
- Full-time teacher at any school of math, science, foreign languages, bilingual education, or other fields designated as teacher shortage areas;
- Full-time special education teacher (includes teaching children with disabilities) in a public or other nonprofit elementary or secondary school;

Cancellation?

PERKINS LOANS PROGRAMS

Perkins Loans may be completely canceled in certain circumstances, including if you are a:

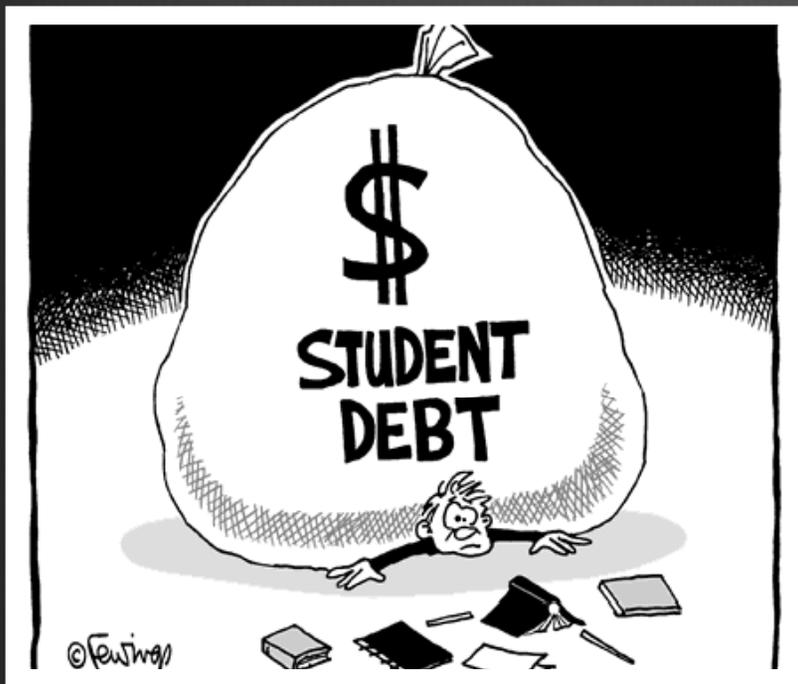
- Full-time qualified professional provider of early intervention services for the disabled;
- Full-time employee of a public or nonprofit child- or family-services agency providing services to high-risk children and their families from low-income communities;
- Full-time nurse or medical technician;
- Full-time law enforcement or corrections officer;
- Full-time staff member in the education component of a Head Start Program;
- Vista or Peace Corps volunteer (up to 70%);
- Active duty service member in the U.S. Armed Forces (up to 50% in areas of hostilities or imminent danger)



Cancellation?

MILITARY SERVICE

The Perkins loan program has discharge programs for borrowers serving in the Armed Forces. The other loan programs do not have military discharges.



Cancellation?

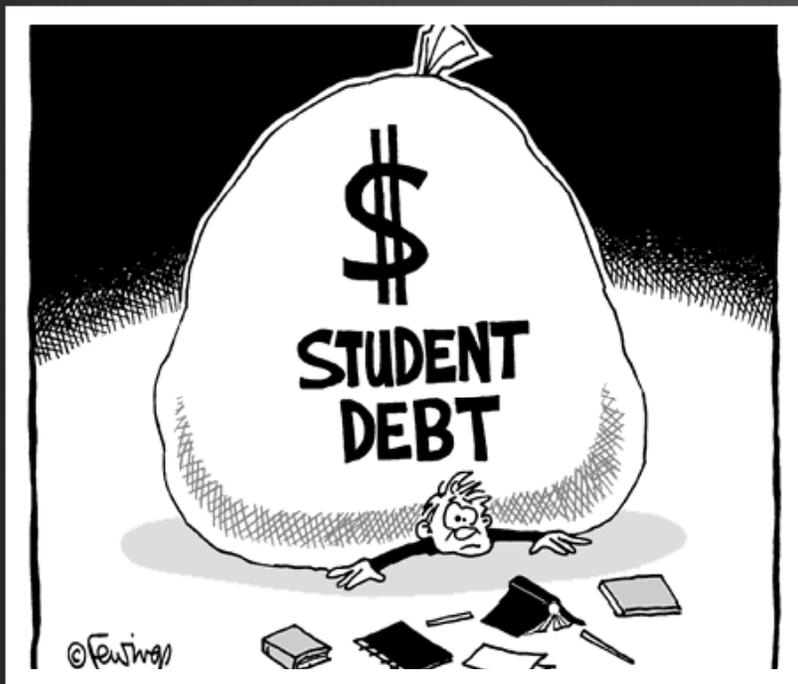
PEACE CORPS AND AMERICORPS



AmeriCorps members are eligible to get the interest on their student loans paid while they are serving. You will only get this benefit if you complete your service. Exceptions are sometimes made if you fail to complete your service for a compelling reason. Peace Corp volunteers with Perkins loans may cancel up to 70% of their loan obligations. The other loan programs do not have special discharges for Peace Corp volunteers.

Cancellation?

NATIONAL HEALTH SERVICE CORPS

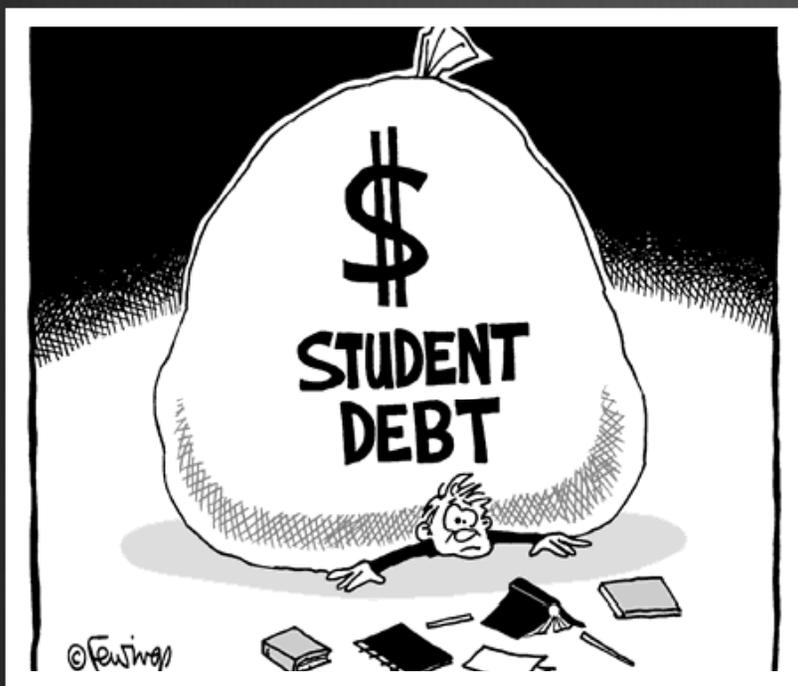


The National Health Service Corps is a competitive program that recruits fully trained and licensed health professionals to provide primary health services in selected high-need communities. Professionals selected for this program may receive funds to be applied to the principal, interest, and related expenses of government loans and certain commercial loans.

Cancellation?

PRIVATE PROGRAMS

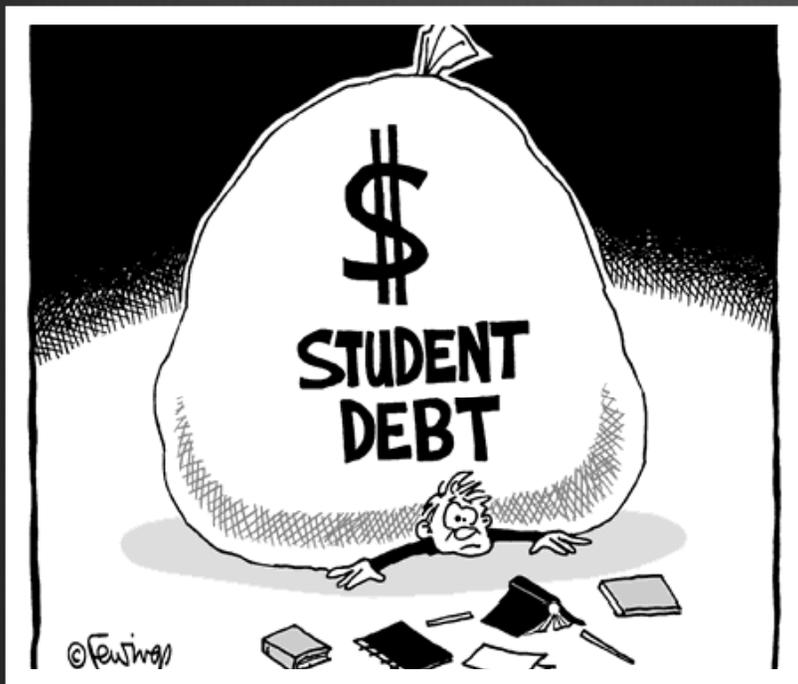
Many employers offer student loan repayment or discharge programs. Employers offer these as an incentive to recruit new employees or retain current employees. These programs vary a lot depending on the employer. You should check with a potential employer to see if they offer loan forgiveness or special repayment options.



Post-Default?

Repayment to Get Out of Default

The two main post-default repayment programs for government loan borrowers are consolidation and rehabilitation.

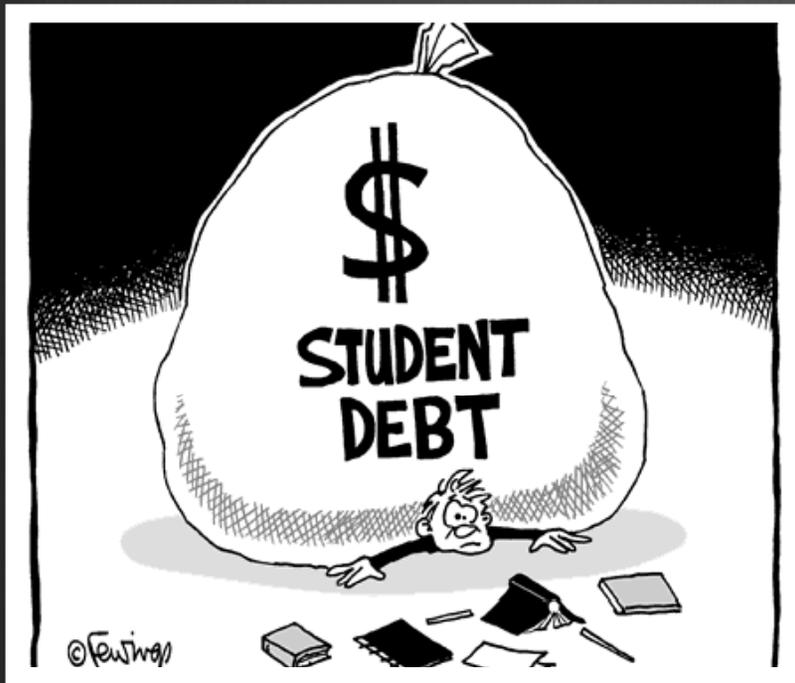


Post-Default?

CONSOLIDATION TO GET OUT OF DEFAULT

Federal Consolidation Loans for Borrowers in Default

The Direct Loan consolidation program is the only government consolidation loan program. Direct Consolidation allows defaulted borrowers to make three consecutive reasonable and affordable monthly payments or agree to pay under Income Contingent Repayment plan (ICRP) or Income Based Repayment (IBR). An interruption in this consecutive period is allowed for qualifying military service members or affected civilians. These borrowers may resume their payments after their service is completed. If you have outstanding balances on Direct Loans, you are eligible for Direct Loan consolidation.



Post-Default?

CONSOLIDATION TO GET OUT OF DEFAULT

Federal Consolidation Loans for Borrowers in Default

You are also eligible if you have only FFEL loans as long as you meet one of the following two conditions: 1) You must be unable to obtain a FFEL Consolidation loan or 2) unable to obtain a FFEL Consolidation loan with acceptable income-sensitive repayment terms.

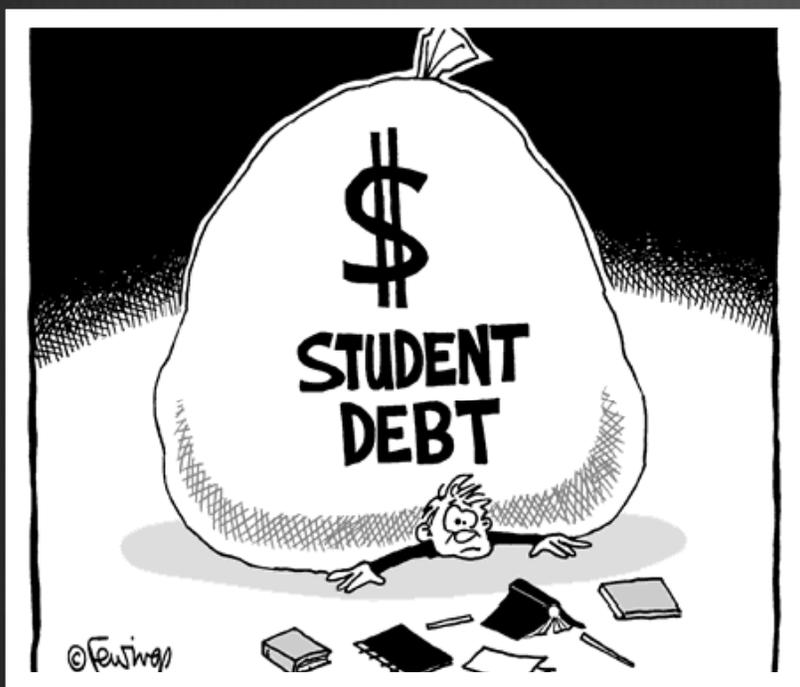


Post-Default?

CONSOLIDATION TO GET OUT OF DEFAULT

Federal Consolidation Loans for Borrowers in Default

If you are in default and consolidating with Direct Loans, you must either make three reasonable and affordable payments or agree to repay using the Income Contingent Repayment Plan (ICRP) or the Income-Based Repayment Plan (IBR).



Post-Default?

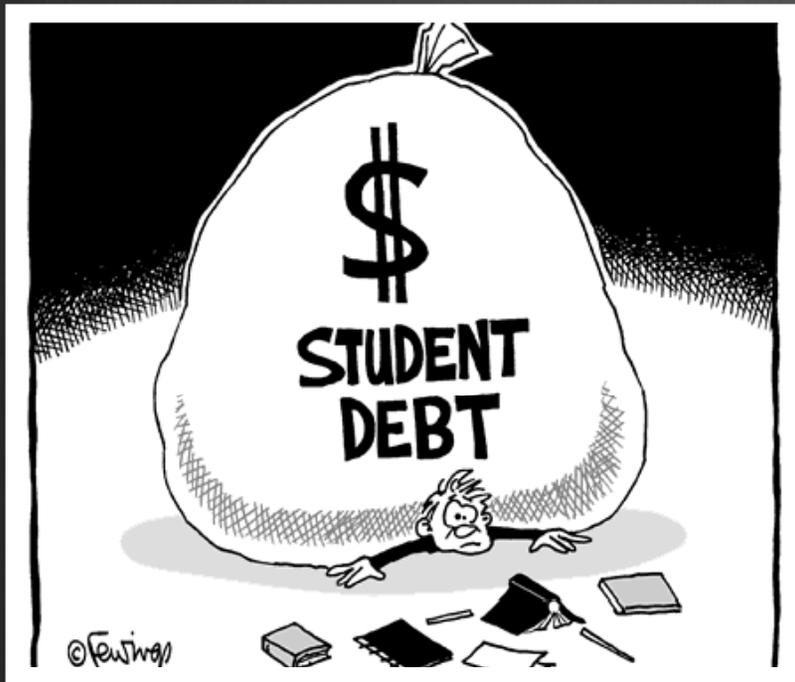
REHABILITATION TO GET OUT OF DEFAULT



You can renew eligibility for new loans and grants and eliminate the loan default by “rehabilitating” a defaulted loan. To qualify for FFEL or Direct Loan rehabilitation, you have to make nine monthly payments within 20 days of the due date during a period of 10 consecutive months. The 9 out of 10 rule basically allows you to miss your payment one month, but still be eligible to rehabilitate. The Perkins program has separate rules. To rehabilitate a Perkins loan, you must make nine payments in a nine month period. An interruption in this consecutive period is allowed for qualifying military service members or affected civilians. These borrowers may resume their rehabilitation payments after their service is completed.

Post-Default?

REHABILITATION TO GET OUT OF DEFAULT



If you are rehabilitating a FFEL loan, the guarantor must attempt to find a lender to purchase the loan after you have made the required payments. Once rehabilitation is complete, the loan is removed from default status and you are eligible for new loans and grants. The default should be removed from your credit record. You can regain eligibility for federal assistance before you complete the rehabilitation as long as you make six monthly reasonable and affordable payments. However, you will need to complete the rehabilitation to get out of default.

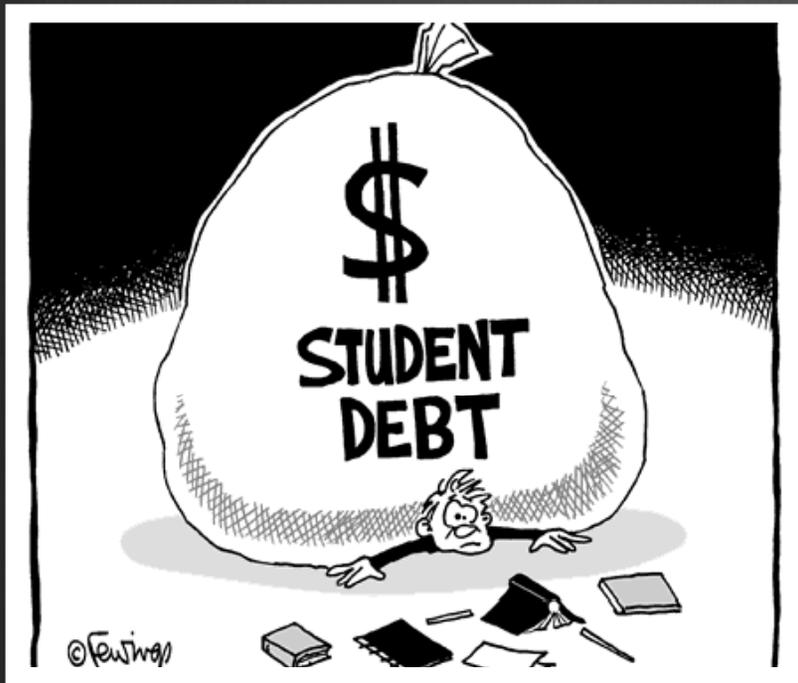
Post-Default?

Compromise & Settlement

The Department of Education can compromise FFEL or Perkins Loans of any amount, and suspend or terminate collection of these loans.

Collection costs can be waived.

30% of principal and interest can be waived. If a guaranty agency chooses to compromise more than 30%, it cannot waive the Department's right to collect the rest.

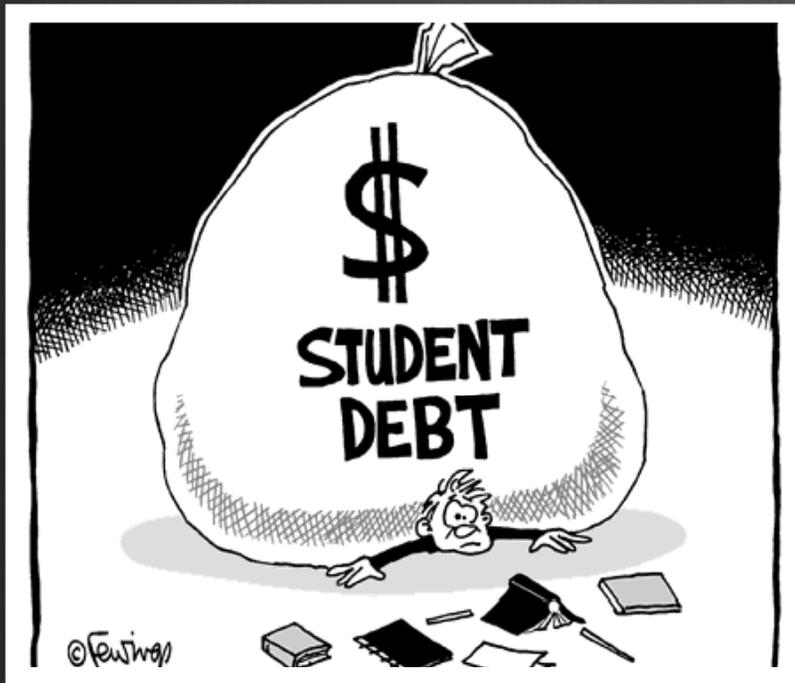


Post-Default?

Compromise & Settlement

These agreements will only stop guaranty agency collection activity, but you will still owe the debt. You can negotiate harder and try to get the Department of Education or guaranty agency to cancel the debt. Also, guaranty agencies are permitted to accept these settlements, but they are not required to do so.

Schools may also write off very small Perkins Loan balances.



Bankruptcy?

Student Loans & Bankruptcy



Student loans are difficult, but not impossible, to discharge in bankruptcy. To do so, you must show that payment of the debt “will impose an undue hardship on you and your dependents.” Courts use different tests to evaluate whether a particular borrower has shown an undue hardship. A common test is the Brunner test which requires a showing that 1) the debtor cannot maintain, based on current income and expenses, a “minimal” standard of living for the debtor and the debtor’s dependents if forced to repay the student loans; 2) additional circumstances exist indicating that this state of affairs is likely to persist for a significant portion of the repayment period of the student loans; and 3) the debtor has made good faith efforts to repay the loans. (*Brunner v. New York State Higher Educ. Servs. Corp.*, 831 F. 2d 395 (2d Cir. 1987); *See Pa. Higher Educ. Assistance Agency v. Faish (In re Faish)*, 72 F.3d 298, 306 (3d Cir. 1995) (adopting Brunner test))

Bankruptcy?

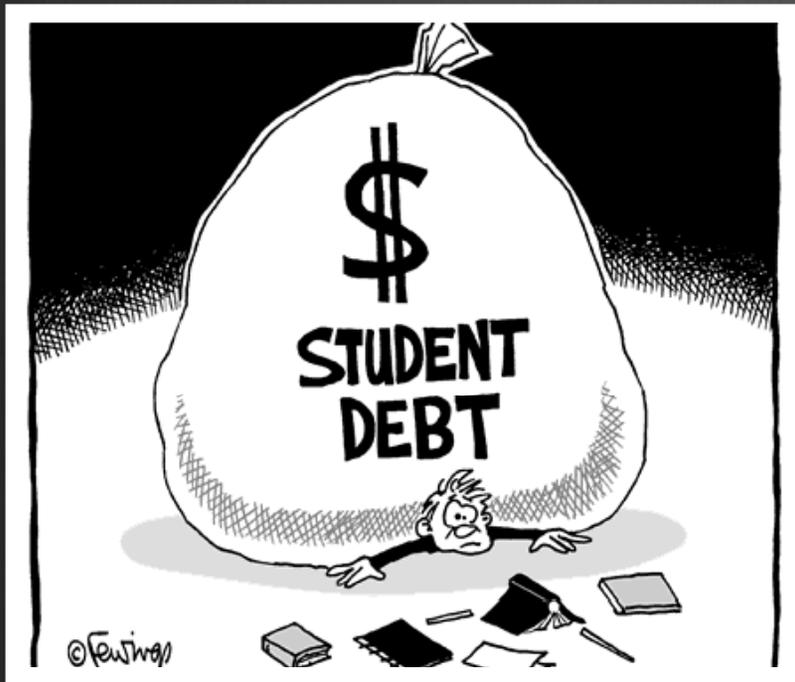
Student Loans & Bankruptcy



If you can successfully prove undue hardship, your student loan will be completely canceled. Filing for bankruptcy also automatically protects you from collection actions on all of your debts, at least until the bankruptcy case is resolved or until the creditor gets permission from the court to start collecting again.

Whether a student loan is discharged based on hardship is not automatically determined in the bankruptcy process. You must file a petition (called an adversary proceeding) to get a determination. Even if you cannot prove undue hardship, you still might want to consider repaying your student loans through a Chapter 13 bankruptcy plan.

More Information?



<http://www2.ed.gov/offices/OSFAP/DCS/index.html>

<http://www.studentloanborrowerassistance.org/>