

Become a Student Loan Expert: A Crash Course for Volunteer Programs

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Become a student loan expert and dazzle your volunteers with your in-depth knowledge of the student loan system! This is, I am sure, a familiar topic; one that has been covered before, but always a good one to revise and revisit. The fact is that the majority of CNVS programs recruit individuals who bear the burden of a couple thousand dollars or more in student

loan debt, and student loans are often make or break issues for individuals looking to spend time volunteering. The problem is not so much that there are no solutions, but that coming to any solution can be confusing, frustrating, and yes, headache-inducing.

Understanding the student loan system is the first step to unraveling the madness. However, keep in mind

that while the program can advise and facilitate, it is ultimately the applicant or volunteer's responsibility to take the initiative and the steps to temporarily postpone their student loan payments while in service. In this article, we will guide you through the student loan system so that you have information and tools to better advise applicants/volunteers on their options.

FEDERAL AND PRIVATE LOANS

Loans can be federal, state, or private. Federal loans are part of Federal Student Aid programs. Federal Student Aid is an office in the U.S. Dept. of Education charged with the mission "to ensure that all eligible individuals benefit from federal financial assistance—grants, loans, and work-study programs—for education beyond high school." While grants and work-study programs do not require repayment, loans do. Federal loans are generally need-based (except for unsubsidized and PLUS loans) and have borrowing limits, though the interest rate is capped by law and is also lower than commercial loans.

The table below shows the types of loans available through Federal Student Aid. Note the difference between subsidized and unsubsidized loans! Information taken from *Funding Education Beyond High School: The Guide to Federal Student Aid*.

Type of Loan	Description	Grace Period	Repayment
Perkins Loan	Need-based loan made through participating schools to undergraduate, graduate and professional degree students	9 months after leaving school. If attending less than half-time, the financial aid office may determine a different grace period.	Payment is owed to the school that made the loan. Loan holder is a bank, credit union, or other participating private loan holder. During the grace period, no interest will be charged and the borrower is not responsible for the principal.
Subsidized Direct or FFEL Stafford Loan	U.S. Department of Education pays interest while borrower is in school and during grace and deferment periods; must be at least half-time student and have financial need.	6 months after leaving school.	Loan holder is U.S. Department of Education, bank, credit union, or other participating private loan holder. During the grace period, no interest will be charged and the borrower is not responsible for the principal.
Unsubsidized Direct or FFEL Stafford Loan	Borrower is responsible for interest during the life of the loan; you must be at least a half-time student; financial need is not a requirement.	6 months after leaving school.	Loan holder is U.S. Department of Education, bank, credit union, or other participating private loan holder. During the grace period, the borrower is not responsible for the principle, but the interest will be charged. The borrower has the option of paying the interest as they go along or capitalizing it (add it to the principal.)
Direct or FFEL PLUS Loan	Available to parents of dependent undergraduate students and graduate and professional students enrolled at least half-time. Financial need is not a requirement. PLUS Loans are unsubsidized; borrower is responsible for interest during the life of the loan.	Does not have a grace period.	Loan holder is the U.S. Department of Education, bank, credit union, or other participating private loan holder. Repayment begins usually within 60 days of disbursement.
Direct or FFEL Consolidation Loans	Multiple federal education loans that have been combined into one loan with one monthly payment for student or parent borrowers.	Does not have a grace period, and grace period may be lost if the consolidation takes place when the loan being consolidated is in grace period.	Loan holder is U.S. Department of Education, bank, credit union, or other participating private loan holder. Repayment begins usually within 60 days of disbursement.

Federal Direct and FFEL Loans

Federal Student Aid has two main loan programs: the William D. Ford Federal Direct Loan program, known as "Direct Loans," and the Federal Family Education Loan Program also known as FFEL. Schools may participate and offer loans in either program or both. Both Direct and FFEL offer "Stafford" loans, which are subsidized and unsubsidized loans for students, and they both offer PLUS loans for parents and graduate/professional students. PLUS loans are usually unsubsidized.

The difference between Direct and FFEL loans lies in the loan holder. With Direct loans, the loan holder is the U.S. Dept. of Education through the Direct program. With FFEL loans, the loan holders are private providers such as banks and credit unions. Private loan holders, like Sallie Mae or Citibank, provide funds for FFEL loans that are guaranteed by the federal government. The interest rates for both Direct and FFEL loans are the same (except for PLUS) and are regulated by the government.

Federal Loans through the U.S. Department of Health and Human Services (HRSA Loans)

In addition to Direct and FFEL loans, there are federal loans available through the U.S. Department of Health and Human Services' Health Resources and Services Administration (HRSA). These loans include Loans for Disadvantaged Students (LDS), Health Professional Student Loans (HPSL), Primary Care Loans, and Nursing Student Loans (NSLP).

Inactive Loan Programs

Finally, some programs are no longer operating but may have outstanding loans. These are programs that are no longer offered or that were replaced by existing loan programs. These remain federally backed loans serviced by a variety of providers. Major loan programs that have become inactive in the recent past include; Auxiliary Loans to Assist Students (ALAS), Supplemental Loans for Students (SLS), Federally Insured Student Loan Program (FISL), Health Student Assistance

Loan (HEAL), Guaranteed Student Loans (GSL), National Direct Student Loans/National Defense Student Loans (NDSL).

Federal Consolidation Loans

Consolidation loans are multiple federal loans that have been combined into one to allow for one monthly payment. Almost all federal loans (subsidized and unsubsidized) are eligible for consolidation under the Direct or FFEL programs. Usually, two kinds of consolidation loans will be generated, one subsidized and one unsubsidized, which allows the borrower to retain the subsidy benefits on the subsidized portion though the borrower receives one monthly statement. Direct or FFEL Consolidation Loans have similar repayment options as Stafford Direct and FFEL loans and are eligible for deferment and forbearance. In some cases, you can re-consolidate a consolidation loan. The Federal Student Aid website provides a list of tools for individuals considering loan consolidation.

Loans eligible for direct loan consolidation and FFEL consolidation include:

- Direct Subsidized and Unsubsidized Loans
- FFEL Subsidized and Unsubsidized FFEL Stafford Loans
- Direct PLUS Loans and FFEL PLUS Loans
- Direct Consolidation Loans and FFEL Consolidation Loans
- Guaranteed Student Loans (GSL)
- Federal Insured Student Loans (FISL)
- Supplemental Loans for Students (SLS)
- Auxiliary Loans to Assist Students (ALAS)
- Federal Perkins Loans or National Direct Student Loans/National Defense Student Loans (NDSL)
- Health Education Assistance Loans (HEAL)
- Health Professions Student Loans (HPSL)
- Loans for Disadvantaged Students (LDS)
- Nursing Student Loans (NSLP)

More information from the Federal Direct Consolidation Loans Information Center can be found at www.loanconsolidation.ed.gov. Another useful site is Ed Fund, found at www.fdfund.org



State Agencies/State Higher Education Agencies

Under the FFEL Program, state agencies or non-profit private institutions insure student loans for loan holders and help administer the program in that state. They also have information on state-sponsored programs, which in some cases include loan forgiveness.

Private Loans

Non-federal education loans offered by loan holders are used to cover educational expenses up to the cost of attendance of the educational institution. These loans are generally used when a student has maxed out on federal financial assistance, but still needs to cover attendance costs. In general, the interest rates, fees, and/or repayment terms are less favorable than what can be found in federal loan programs. Private education loans are not guaranteed by the federal government and are not need-based. Rather, they depend on credit history, and often a co-signer may be needed (or may be preferable). The interest starts to accrue right away, but repayment is not required until after graduation. Interest rates are also variable, and as some have found out, may climb as high as 18%.

FinAid, a financial aid resources website, notes that private loan volume in the U.S. is growing at 17% more per year than federal loan volume. A 2006 article on USA Today has also warned of growing dependency and risk on private education loans attributed to borrower limits on federally-backed loans given the surging costs of education; aggressive marketing by loan holders that confuse students and parents alike; and financial pressures on parents which leads students to turn to private loans.

What's a Volunteer To Do?

Now that we're better acquainted with the student loan system and know more about the various kinds of student loans, we'll look at ways volunteers can manage their loan responsibilities while in service. We start by looking at the two primary tools volunteers use to postpone payments on student loans: deferment and forbearance.

Deferment

The most important thing to note about these two options is that they are not the same, even if their definitions sound very similar, and this matters when volunteers speak to their loan holders or servicing agencies. Federal Student Aid defines deferment as "a temporary suspension of loan payments for specific situations such as reenrollment in school, unemployment, or economic hardship." The emphasis here is on specific situations, and deferments may have different requirements than forbearances. Usually deferments require meeting certain eligibility criteria and submitting supporting documentation such as W-2s, registration with an employment agency, etc. Different loan holders offer different types of deferment options, up to 14 types according to Student Loan Counseling Service, Inc., so it is best to check with the loan holder. Deferment benefits for federal loans are available up to 36 months, usually granted in 6 months to 12 month increments. When a loan is consolidated, deferment limits may be renewed for that loan.

Below is a list of deferment conditions, which may not be exhaustive:

LOAN DEFERMENT SUMMARY CHART

Deferment Condition	Stafford - Direct Loans	Stafford - FFEK Loans	Perkins Loan
At least half-time study at a post-secondary school	yes	yes	yes
Study in an approved graduate fellowship program or in an approved rehabilitation training program for the disabled	yes	yes	yes
Unable to find full-time employment	Up to 3 years	Up to 3 years	Up to 3 years
Economic hardship	Up to 3 years	Up to 3 years	Up to 3 years
Engages in service listed under discharge /cancellation conditions	no	no	yes
Active military duty	Up to 3 years	Up to 3 years	Up to 3 years

Source: http://studentaid.ed.gov/students/attachments/funding/StudentGuide0708_deferment.pdf

In addition to these, there are some deferment options for "old borrowers," which are defined as having at least one loan contracted before a certain date as well as meeting other eligibility criteria and time limits. Some of deferment options for "old borrowers" come under the following categories; Internship/Residency, Teacher Shortage Area, Temporary Total Disablement, Parental Leave, Working Mother, and Public Service Deferments.

Forbearance

Federal Student Aid defines forbearance as "a temporary postponement or reduction of payments for a period of time because you are experiencing financial difficulty." Forbearance is generally used when borrowers experience temporary financial difficulty and postponement allows them time to catch up to their payment schedule, or when they have exhausted their deferment options. Forbearance may reduce payments, extend the billing period, or postpone them for a short-term period altogether. For federal loans, there are no limits on how many forbearances a borrower can request, and they are granted up to 12 months at a time. In general, forbearances are categorized as mandatory, administrative, or discretionary. Below is a list from CollegeZone.com:

Types of Forbearances:

- Discretionary – can be granted for any reason agreed upon between the borrower and the loan holder (example, going back to school less than half time and no deferment eligibility).
- Administrative – can be granted by the loan holder for specific reasons without written authorization (example, loan payments were behind at the time a deferment was granted).
- Mandatory – must be granted by the loan holder for specific reasons if the borrower requests, for a specific length of time (example, total monthly educational loan payment is equal to or greater than 20% of the borrower's monthly gross income). This type can be granted for no more than 12 months.
- Mandatory Administrative – must be granted by the loan holder for specific reasons (example, the borrower is not able to repay using an income-sensitive repayment schedule within 10 years due to changes in the variable interest rate).

Interest Accrual in Deferment and Forbearance

When a federal loan is in deferment or forbearance, the interest continues to accrue on the loan with the exception of subsidized Direct or FFEL loans in deferment. Subsidized loans means the government pays the interest while the borrower is in school or when the loan is in deferment. Subsidized loans in forbearance will continue to accrue interest. The borrower can continue to pay the interest on the loan or have the interest capitalized (added to the principal amount of the loan).

AmeriCorps: Loan Forbearance

One of the advantages of the CNVS AmeriCorps Education Awards Program (or any other AmeriCorps program) is that AmeriCorps members are eligible for a mandatory loan forbearance based on National Service. Forbearance based on National Service is available for most federal and state-backed loans. The following loans are eligible for forbearance based on National Service, but also may be available for Federal Perkins Loans and loans made by a state agency.

Deferment and Forbearance for Private Loans

Private loan holders may also offer forbearance and deferment, though they are not required to do so and eligibility, criteria, and rules may be different (and less favorable) than what is required for federal loans. With private loans, applicants/volunteers unfortunately are subject to the terms and conditions set by their loan holder and they seem to have little recourse otherwise. In some cases, the loan holder will charge additional fees for putting the loan in forbearance, up to \$150 in one case. If feasible, CNVS programs may consider providing additional support to volunteers with private loans.

Also, Check Out Loan Forgiveness!

Volunteers in certain professional fields may be eligible to receive loan forgiveness for some federal loans. Below are two tables that summarize discharge and cancellations for Perkins and Direct/FFEL loans. Volunteers should apply directly to their loan holder.

To Do's for Your Volunteers

The first step for volunteers interested in temporarily postponing payment of their loans while in service is to call their loan holder(s) or servicing agency to check their loan status, inform them of their intention to volunteer, and review their options for deferment or forbearance. Volunteers with federal and state-backed loans have various options for deferment and forbearance. Unfortunately, for volunteers with private loans the options are limited to what their private lenders may offer.

Here are a few things volunteers should consider:

1. What kind of loan do I have? Is it subsidized or unsubsidized?
2. When did I acquire my loans? Am I an "old borrower?"
3. Am I eligible for AmeriCorps and also participating in an AmeriCorps program?
4. Which is better for me, given my situation and the kinds of loans I have, deferment or forbearance? And what type of deferment or forbearance would be best?

Volunteers should know who their loan holder or servicing agency is, their contact information, and where to send deferment or forbearance requests (which is usually different than the address where payments are processed).

When to submit a deferment or forbearance request?

Request for forbearances and deferments should be submitted to the loan holder or servicing agency within 30 days from the desired start date. Renewals for forbearances and deferments should be submitted within 60 days of the desired start date.

Volunteers enrolling in CNVS AmeriCorps programs can fill out the National Service Forbearance Form included in their member handbooks or request forbearance online through My AmeriCorps once they have been enrolled. Only certain qualified student loans will be eligible, and no private loans are eligible for National Service Forbearance. If a paper form is sent, CNVS AEAP will certify the enrollment and fax or mail the form to the loan holder or servicing agency. In order to avoid delays in processing National Service Forbearances, we suggest that applicants:

1. Call their loan holder prior to enrollment. Volunteers should know about forbearance based on national service or they may end up getting routed to less favorable deferment options. Remember forbearance and deferments are not the same thing!
2. Make sure the form is the National Service Forbearance Form (provided by CNVS or by your lender, no other will apply) and information in the form is accurate and completely filled out.
3. Provide the correct fax or mailing address for the loan holder or servicing agency where forbearances are processed.
4. Call their loan holder a week or two after the form has been submitted to CNVS AEAP. CNVS AEAP does not receive confirmation from the loan holder as to whether the forms were received or the forbearance granted. It is the AmeriCorps member's responsibility to follow-up.
5. If a loan is in its grace period, it should be submitted to CNVS AEAP within 90 days prior to the end of the grace period.

Need More Information? Visit:

- Funding Education Beyond High School - http://studentaid.ed.gov/students/attachments/site/resources/FundingEduBeyondHighSchool_0708.pdf
- Federal Student Aid - <http://studentaid.ed.gov/PORTALSWebApp/students/english/index.jsp>