Student Loan Repayment: Fact vs Fiction

Nonprofit credit, student loan counseling agency Take Charge America breaks down common misperceptions including refinancing, interest rates, federal programs and more

PHOENIX – (April 11, 2017) – The student loan crisis is center stage now with a proposed bill that would offer tuition-free college for most Americans while reducing student loan interest rates. At the same time, the fate of Public Service Loan Forgiveness has come into question, creating alarm among borrowers who are unsure whether they meet eligibility requirements.

“Student loans are a constant source of stress and confusion,” said Sarah Hamilton, student loan supervisor for Take Charge America, a national nonprofit credit counseling and student loan counseling agency. “Constant media coverage has created a lot of uncertainty, giving rise to pervasive misperceptions about loan repayment. It’s made worse by the fact that servicers aren’t required or incentivized to tell their clients about all repayment options, so many borrowers are simply in the dark.”

To ensure borrowers are clear on what’s fact and fiction, Hamilton dispels seven common myths:

1. **Myth: Wide availability of loan forgiveness.** Borrowers who are struggling to make payments often seek “loan forgiveness,” but this option is highly limited:
   - **Public Service Loan Forgiveness** is available to borrowers who work full-time for the government or qualifying nonprofit organization, but only after they make 120 qualifying payments.
   - **Standard income-driven repayment** offers loan forgiveness after 20-25 years of payments.
   - **Loan discharge** may be granted to borrowers who can’t repay their debt due to permanent disability, death or other qualifying events.

2. **Myth: It’s easy to lower the interest rate.** Rates are set when a borrower takes out a student loan and cannot be reduced. However, borrowers may benefit from a Direct Consolidation Loan, which combines multiple federal loans and offers a fixed rate based on the weighted average of individual loans.

3. **Myth: Private loans offer better rates.** Private loans are credit-based, meaning interest rates may end up being higher. These loans may also extend the terms, meaning borrowers will pay more over the life of the loan. Borrowers who refinance to a private loan may also lose government subsidies, including forgiveness options and deferments.

4. **Myth: Loans can be dismissed in bankruptcy.** It’s extremely difficult to obtain student loan forgiveness – even in bankruptcy. Instead, loans are placed on hold, meaning borrowers are left with the debt after bankruptcy.

5. **Myth: I can get away without paying my debt.** Up to 40 percent of borrowers are late or delinquent on their loans, and many minimize the consequences because “nothing bad has happened yet.” However, student debt is reported to the credit bureaus and negatively impacts delinquent borrowers’ credit scores. And, unlike other debts, negative reporting doesn’t end after seven years. Moreover, the government may elect to start a wage garnishment, set a tax offset or even withhold Social Security.
6. **Myth: Loans are discharged when a school closes.** While loan discharge may be possible when a borrower’s school shuts down, the criteria are stringent. Moreover, borrowers whose loans are discharged in this way forgo the opportunity to transfer any credits they earned at that school.

7. **Myth: It’s hard to qualify for alternative repayment plans.** Loan servicers often place borrowers into the standard 10-year repayment plan automatically, but there are numerous options that may be a better fit for borrowers’ individual circumstances. Borrowers may want to seek help from a nonprofit student loan counseling agency for help evaluating alternative programs.

Borrowers seeking more information about student loan repayment options can visit Take Charge America at studentloans.takechargeamerica.org or call (877) 784-2008.

**About Take Charge America, Inc.**

Founded in 1987, Take Charge America, Inc. is a nonprofit agency offering financial education and counseling services including credit counseling, debt management, student loan counseling, housing counseling and bankruptcy counseling. It has helped more than 1.6 million consumers nationwide manage their personal finances and debts. To learn more, visit www.takechargeamerica.org or call (888) 822-9193.

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