# Creating Consistency in Educational Finance:

A Training Curriculum

## Introduction

It's been stated that student loan regulations are second in complexity only to IRS rules. Given this, customer service representatives play a key role in helping students and parents understand both basic student loan information as well as the nuances that can affect their decisions.

Customer service representatives are the face of the company they represent. They are in contact with borrowers throughout the life of a student loan, and more often than not this period covers a span of 10 or more years.

Exchanging information over the telephone can be challenging under the best of circumstances. Whether it's answering a specific question about the student's loan account or simply answering a general question, the conversation can get complicated. Representatives must be able to interpret, explain, and apply the rules affecting borrowers in everyday situations. They are expected to be knowledgeable not only about today's rules but those of the past as well. They must be cheerleaders, a sounding board, a friend, a resource, and a shoulder to cry on. And, all the while, they must be patient, calm, and reassuring.

Keeping in mind the challenges facing call center representatives, this module is designed to:

- Present some practical customer service techniques that are designed to facilitate meaningful conversations with borrowers
- Assist customer service representatives in becoming knowledgeable about the various repayment options that are available to borrowers. Through building a knowledge base about the rules and regulations affecting repayment, customer service representatives will be prepared not only to help address a borrower's unique situation, but also to maintain consistency in the information that is provided to all borrowers.
- Provide customer service representatives with an understanding of the impacts that an adverse credit history can have on a borrower. By knowing and sharing this information with the borrower, customer service representatives can be more effective in creating a sense of urgency in borrowers to pay back their student loans.

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## Learning objectives

At the end of this module, you will:

- ❑ Employ proven skills and techniques for communicating with borrowers effectively (Section I)
- ❑ Convey the different repayment plans available to borrowers (Section II)
- ❑ Understand and apply regulatory requirements pertaining to deferments and forbearances (Section III & IV)
- ❑ Counsel borrowers on the most appropriate repayment option based on practice scenarios (Section V)
- ❑ Convey the impact that an adverse credit history can have on a borrower (Section VI)

## Section I : Exercising good customer service and communication skills

Many customer service representatives know firsthand that a conversation over the telephone is difficult and that no other form of communication can replace the effectiveness of an in-person conversation. Furthermore, the way information is communicated to the student is just as important as the information being communicated. Therefore, in order to successfully reach out to borrowers and help them understand the importance of paying back their student loans, it is critical for customer service representatives to practice good customer service skills.

Following are some key principles that customer service representatives can employ when communicating with borrowers. Applying these techniques in all communications with the student can facilitate meaningful telephone conversations regarding the student's educational debts.

### *Keys to customer service*

- **Listen actively and empathize with genuine concern.** Discussing financial matters can be difficult for many borrowers; therefore, avoid embarrassing or scolding borrowers.
- **Deliver accurate and complete information.** Keep yourself up to date on regulations affecting student loan repayment.
- **Serve with a unified voice.** Refrain from blaming others (lenders, servicers, schools, or guarantors) for misinformation. Instead concentrate on clarifying information for the student.
- **Maintain a positive, service-oriented attitude.** The borrower should never be an inconvenience. Borrowers should be treated with respect and taken seriously.
- **Go above and beyond as an advocate for each borrower**. If you do not know the answer to a question, refer the borrower to the appropriate person or place.

### *Practicing proper telephone etiquette*

In order to maximize the exchange of information with borrowers over the telephone, consider following the techniques described below.

- Avoid background noise, including radios, newspapers, and other distractions.
- Speak warmly and with a pleasant tone.

- Be sure not to use jargon, interoffice codes, and abbreviations when speaking with a borrower. A good rule to follow is that if someone you know outside the office wouldn't understand the term you're using, don't use it with a borrower.
- Always be sure to ask the borrower if it's alright to place him or her on hold, and don't leave the telephone on hold for an extended period of time. Be sure to check back with the borrower and give them a progress report every 30-40 seconds.
- When transferring borrowers, explain the reason for the transfer and let them know who you will be transferring them to. Be sure you know the transfer instructions for the telephone system you are using so you don't disconnect the borrower
- Keep your voicemail message professional and up to date. A borrower may call during hours you are not in the office. Your outgoing message should provide the borrower with pertinent information before he or she is prompted to leave a message.
- Be patient, stay cool and collected under pressure or when facing an irate borrower. Your ability to stay patient reflects positively on the institution.
- When receiving calls for someone else and that person isn't available, be sure to offer assistance. Do not make commitments for others. Say, "I'll give him your message when he returns," rather than, "He will call you as soon as he returns."
- Take accurate and detailed messages. Be sure they are legible and include the date and time of the call and the best time to reach the borrower.
- When documenting information, be sure to obtain the correct information from the borrower. This includes the caller's name and spelling. Also be sure to repeat the information you are receiving back to the borrower to assure accuracy.

### *Exercising effective listening skills*

Developing effective listening skills can result in greater productivity and efficiency. Also, it shows the borrowers that you are serious about helping them and it fulfills their need to be heard.

- Try not to formulate questions or remarks while listening to a borrower as this will distract you.
- Be sure not to listen for what you want to hear, but rather listen to what they are saying.
- Try to think like the borrower. His/her needs are important. Limit your own talking and concentrate on what the caller is saying.
- Don't interrupt callers and do take notes while they are talking. This will help you remember important points.
- Ask the borrower questions if you feel you have missed important information, and be sure to react to ideas, rather than to the person you are speaking with. Ask focusing questions.
- When you are not using effective listening skills, you may find yourself doing unrelated projects while talking to a borrower, assuming what the problem is and tuning the borrower out or daydreaming.

### *Learning how to properly ask questions*

In some cases, borrowers may not know exactly how to ask a question. Always keep this in mind and help borrowers ask what they really want to know by using the following probing techniques.

- Use both open- and closed-ended questions. Open-ended questions usually start with words like *how* or *what*. They are used to get a person to give more information.

- Don't use questions that start with *why* because it may put the borrower on the defensive.
- Closed-ended questions can be answered with *yes* or *no*, or a short answer. They are used to get specific information.

## *Closing the call with the borrower*

Following the above techniques can result in productive conversations with the borrower. However, exercising proper telephone etiquette without creating a sense of urgency in the borrower's mind may not lead the borrower to take action. Therefore, it is imperative that customer service representatives be courteous to borrowers but at the same time remember to be firm and urge borrowers to take action.

## *Urging the borrower to take action*

- **Keep the objectives in mind.** It is important that every conversation center on bringing the account current and in some instances having a final resolution to the delinquency made with each call. Phrases to keep in mind are "once" and "done" or "only handle it once (OHIO)." Strive for this conversation to be the only conversation necessary.
- **Treat every case with the same level of importance and sense of urgency.** Whether the borrower is 60 days past due or 290 days past due and/or in a claim-pending status, convey the significance of the delinquency to the borrower. This should not, in any way, decrease the level of customer service that is provided to the borrower. Continue to provide the best customer service possible.
- **Be more assertive and less tentative when counseling borrowers.** Advise borrowers what actions must be taken rather than asking them to take the action or asking if they are interested in taking the action. Once the action is decided upon, have the borrower restate it.
- **Assess the borrower's situation correctly.** Stress that making a payment is the best option available. Remember, just because a borrower is unemployed does not mean that he or she cannot make a payment. If the borrower agrees to make a payment or bring the account current with payment, get a commitment for a specific amount and date as to when the payment(s) will be sent.
- **If the borrower cannot bring the account current with a payment, discuss possible deferment options.**
- **If eligible for a deferment, explain the deferment requirements and send the deferment form to the borrower.** Suggest downloading the form or sending the form via fax if the borrower has access and capability. If not, mail the form. Advise the borrower of the importance of accurate completion of the form and timely return. Strongly encourage the borrower to follow-up to ensure the deferment was received and processed. Advise the borrower to continue follow-up efforts until confirmation is received that the deferment is in place.
- **If the borrower is ineligible or does not qualify for any deferments, explain the forbearance option.** Explain that a forbearance will temporarily postpone payments or can be used to bring the account current. Ensure that the borrower understands the impact forbearance may have on his or her loan and future payments.
- **Provide the borrower with a phone number for contacting you if additional questions arise.** Provide the borrower with the company Web address so he or she may download applicable forms, research the situation on their own, and keep track of loan repayment.
- **In instances of delinquency, inform the borrower that the delinquent account will default at 270 days unless satisfactory repayment arrangements are made.** Stress the importance of keeping the delinquency below this point until approval of the deferment or forbearance.

- **If the borrower is going to send a payment, stress the need to stay in contact to confirm the exact number of days the loan(s) is delinquent and the amount.** This will help ensure an adequate payment is received before the borrower reaches the 270th day of delinquency (default). Discuss the consequences of defaulting on a student loan. Ensure that the borrower knows what can and will happen.
- **At the conclusion of the call, summarize the conversation and restate the actions the borrower must take to resolve the delinquency.** Get a commitment from the borrower to take the necessary actions.
- **It is important that all borrower contact be documented.** This documentation needs to be thorough, concise, and discreet. Always document information received.
- **In some cases, it will be necessary to follow-up on an account after a borrower contact has been made.** Although not common, follow-up may be necessary in certain circumstances. If a borrower has questions/problems that you cannot resolve without research, set a time to call the borrower back. Ensure you do, even if only to tell the borrower that you will need more time to research his/her question/problem.

## Section II : Payment options for borrowers

To receive a telephone call from a borrower who has done his/her research about the different payment plans and methods would be ideal for a customer service representative. Although this may be true of some borrowers, it is likely that most borrowers will need to be reminded of the various payment plans and options that are available for making their student loan payments. Most importantly, it is in speaking about the various payment options and methods that customer service representatives should stress the importance of making timely and regular payments.

Most lenders and servicers offer students a number of options that make it easier for students to send in payments. Some of those options include:

- Setting up automatic debit withdrawals from a student's bank account
- Making payments online
- Processing a check over the telephone
- Mailing a check

In speaking with borrowers, it is important for customer service representatives to explain the benefits of choosing one payment method over another. For instance, many lenders and servicers offer students interest rate discounts when signing up for automatic debit withdrawals. In this instance, not only can students save money in the long-run, but also, automatic debits ensure regular and timely payments to the student's account.

### *Types of repayment plans available to borrowers*

In an ideal world, college students graduate and find a job that will afford them a comfortable lifestyle while having enough money to meet their debt obligations. However, people's lives are always changing, and unexpected situations occur that make it difficult for some borrowers to repay their student loans. The good news is that the Federal Family Education Loan Program (FFELP) gives borrowers a number of options to assist them with repayment and prevent them from defaulting on their student loan due to unforeseen situations.

Because there are numerous repayment options, it is important to help borrowers choose the best plan for their particular situation. Borrowers may not know exactly what to ask for, so begin by discussing with the borrower his or her financial situation. In this way, the most appropriate repayment plan can be recommended.

All borrowers should be encouraged to stick to a repayment plan and make timely payments. However, when borrowers are unable to make regular monthly payments during periods of hardship, deferment or forbearance is an alternative repayment solution. It is important to assess if the situation truly warrants a deferment or forbearance. If a borrower can afford to make reduced payments (as opposed to postponing full payments) with a forbearance, a customer service representative should counsel the borrower accordingly. Additionally, a borrower's situation should be carefully assessed so that a forbearance is not automatically applied when the borrower may qualify for a deferment.

The majority of borrowers will not be able to repay their entire loan balance immediately upon entering repayment. The FFELP offers borrowers a number of different repayment plans to help them repay their student loans over a period of time.

For most borrowers, a standard 10-year repayment plan provides sufficient time to repay their loans; although, depending on their circumstances, an alternate repayment plan may work better. For example, most students right out of school may initially find it difficult to make the payments required for their loan balance. But because of having a college degree, they can realistically expect their income to increase over time. Therefore,

having a smaller payment at the beginning and somewhat higher payment toward the end of the repayment term makes paying back the loan easier, therefore reducing the possibility of default.

Generally, borrowers take between five and 10 years to repay their student loans. The minimum annual payment is $600.00, which is typically prorated to a minimum monthly charge of $50.00. In exceptional circumstances, the monthly payment may be less than the standard minimum of $50.00. However, the payment amount can never be less than the amount of interest that accrues each month.

When the loan enters repayment, the borrower is notified of the due dates for each payment. The borrower can always pay early or even in lump-sum payments (with notice to the lender) without penalty, however late payments often result in penalties such as late charges, negative credit ratings, and a loss of some on-time payment incentives.

## *Standard Repayment Plan*

Unless otherwise requested, borrowers will generally start out with a standard repayment plan. A standard repayment plan typically amortizes a loan into equal monthly payments over the repayment period. Each payment will be applied first to outstanding fees and charges, then to interest, and last to principal. Although factors such as late payments, interest rate changes, and capitalized interest may affect the monthly payment amount, the borrower's monthly payment will usually stay fairly consistent, making it a preferred option for most borrowers.

## *Graduated Repayment Plan*

Many borrowers who graduate from college often begin their careers earning a significantly lower salary than they had anticipated. In these situations, a graduated repayment plan, which requires lower initial payments that gradually increase over time, may be a better choice. When a borrower chooses a graduated payment plan, the amount of time to repay the loan does not change - the standard term is still 10 years. (See Table 1 for a sample repayment schedule of a Graduated Repayment Plan)

## *Extended Repayment Plan*

Borrowers with high loan balances often find the payment amount required in a Standard Plan difficult to maintain. Borrowers whose first disbursement was made on or after October 7, 1998, may select an extended repayment plan that allows for a repayment period of up to 25 years. This extended plan is only available to borrowers whose principal balance is greater than $30,000.00.

## *Income Sensitive Repayment Plan*

If a graduated and/or extended repayment plan is not enough to help the borrower who is having difficulty making loan payments, the borrower may request an income sensitive repayment plan. The income sensitive plan helps borrowers with low income avoid delinquency and default. The monthly payment amount is based on the borrower's total monthly gross income from all sources. The borrower must provide proof of income.

Unlike the graduated payment plan, the income sensitive plan requires the borrower to reconfirm income with the lender each year. A maximum of up to five years must be added to the 10-year repayment period through the use of reduced-payment forbearance if the borrower requires the additional time to repay the loan in full. (See Table 1 for a sample repayment schedule of an Income Sensitive Repayment Plan. In this example, the payment amount was calculated based on a borrower making $2,000 monthly and allocating 4% of monthly salary to the student loan payment.)

## *Consolidation*

While not technically a repayment plan, loan consolidation is another option available to help borrowers in managing their student loan debt. With consolidation, the original loans are paid in full and a new loan for the combined balances is originated. This new loan has a fixed interest rate and, potentially, a longer repayment term, which could reduce the monthly payment amount. Of course, it is always important to remember that a longer repayment term may result in more interest paid over the life of the loan.

**Table 1: Comparison costs between repayment plans**

| | Standard Plan | Graduated Plan | Income Sensitive Plan |
|---|---|---|---|
| Outstanding Loan Balance | $11,625.00 | $11,625.00 | $11,625.00 |
| Interest Rate | 5% | 5% | 5% |
| Estimated Monthly Payment | $123.00 | Years 1&2: $49.00; Years 3-10: $147.00 | Years 1: $80.00; Years 2-10: $117.00 |
| Term | 10 years | 10 years | 10 years |
| Total Interest | $3,171.00 | $3,662.00 | $3,638.00 |
| **Total Amount** | **$14,796.00** | **$15,287.00** | **$15,263.00** |

## Section III : Regulatory requirements for deferments

Policy makers and regulatory agencies recognize that people tend to experience financial ups and downs, but that most of the low points are temporary in nature and usually improve over time.

When people are experiencing a hardship, necessities such as housing, food, and transportation are usually placed ahead of intangibles such as educational debt. Consequently, some borrowers may stop making payments on their student loan and the loan becomes delinquent. The following is a description of the deferment options available to borrowers who meet certain criteria. Deferments are entitlements; if a borrower qualifies, the lender must grant the deferment. If a borrower can continue to make payments, but in a reduced amount, that action should be encouraged. The payments can then be applied to principal on subsidized loans and to accruing interest on unsubsidized loans.

### *Identifying borrower categories*

In order to determine the deferment options for individual borrowers, it is important to first identify the loan type and the borrower category as determined by the date that the borrower's first loan was disbursed and whether there was an outstanding balance on the previous loan when the borrower takes out a new loan. Since the inception of the Higher Education Act of 1965, there have been three primary changes to the deferment options available to borrowers. Loan disbursement dates determine which rules apply to which specific loans.

The borrower category, as shown in Table 2, in conjunction with the loan type, are used to determine the borrower's eligibility for a deferment.

The new Military Deferment resulting from the Higher Education Reconciliation Act of 2005 is not shown in Table 2. Unlike previous deferment types, the new Military Deferment applies to specific loans and is not borrower-based.

## Table 2: Deferment Eligibility Chart

| Deferment Type | Time Limit | Stafford & SLS Loans: Pre 7/1/87 Borrower | Stafford & SLS Loans: New[1] Borrower 7/1/87 to 6/30/93 | Stafford & SLS Loans: New[2] Borrower 7/1/93 | PLUS Loans: Loans before 8/15/83 | PLUS Loans: Pre 7/1/87 Borrower | PLUS Loans: New[1] Borrower 7/1/87 to 6/30/93 | PLUS Loans: New[2] Borrower 7/1/93 | Consolidation Loans: Pre 7/1/87[8] Borrower | Consolidation Loans: New[9] Borrower 7/1/93 |
|---|---|---|---|---|---|---|---|---|---|---|
| In-School: Full Time | None | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| In-School: Half Time[7] | None | | ● | ● | | | ● | ● | ● | ● |
| Graduate Fellowship | None | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Rehabilitation Training | None | ● | ● | ● | ● | ● | ● | ● | ● | ● |
| Teacher Shortage | 3 yrs. | | ● | | | | | | | |
| Internship/Residency Training | 2 yrs. | ● | ● | | ● | | | | | |
| Temporary Total Disability[3] | 3 yrs. | ● | ● | | ● | ● | ● | | ● | |
| Armed Forces or Public Health Services[4] | 3 yrs. | ● | ● | | ● | | | | | |
| National Oceanic and Atmospheric Administration Corps[4] | 3 yrs. | | ● | | | | | | | |
| Peace Corps, ACTION Program and Tax-Exempt Organization | 3 yrs. | ● | ● | | ● | | | | | |
| Unemployment | 2 yrs. | ● | ● | | ● | ● | ● | | ● | |
| Unemployment | 3 yrs. | | | ● | | | | ● | | ● |
| Parental Leave[5] | 6 mos. | ● | ● | | | | | | | |
| Mother Entering/Reentering Work Force | 1 yr. | | ● | | | | | | | |
| Economic Hardship | 3 yrs. | | | ● | | | | ● | | ● |
| ***PLUS / Dependent's status[6]*** | None | | | | | | | | | |
| In-School: Full Time | None | | | | ● | ● | ● | | | |
| In-School: Half Time | None | | | | ● | ● | ● | | | |
| Rehabilitation Training | None | | | | ● | ● | ● | | | |

**1. New Borrower 7/1/87 - 6/30/93:** A borrower whose first FFELP loan was made on or after July 1, 1987, and before July 1, 1993, or who had an outstanding balance on a loan obtained on or after July 1, 1987, and before July 1, 1993, when he or she obtained a loan on or after July 1, 1993, or who had no outstanding balance on a Federal Consolidation loan made before July 1, 1993, that repaid a loan first disbursed before July 1, 1987.

**2. New Borrower 7/1/93:** A borrower whose outstanding FFELP loans were all made on or after July 1, 1993, and when his or her first FFELP loan was made on or after July 1, 1993, had no outstanding FFELP loans that were made before July 1, 1993.

**3.** A deferment may be granted during periods when the borrower is temporarily totally disabled or during which the borrower is unable to secure employment because the borrower is caring for a dependent (including the borrower's spouse) who is temporarily totally disabled.

**4.** Borrowers are eligible for a combined maximum of 3 years of deferment for service in NOAA, Public Health Services and Armed Forces.

**5.** A parental leave deferment may be granted to a borrower in periods of no more than 6 months each time the borrower qualifies.

**6.** Deferment for parent borrower during which the dependent student for whom the parent obtained a PLUS loan meets the deferment eligibility requirements.

**7.** A borrower who received a Federal Consolidation loan before July 1, 1993, that repaid a loan made before July 1, 1987, or who had an outstanding balance on a FFELP loan obtained prior to July 1, 1987,when the Federal Consolidation loan was obtained, is eligible for in-school deferment only if the borrower attends school full time.

**8.** A borrower with a Federal Consolidation loan made before July 1, 1993, or a borrower who receives a Consolidation loan on or after July 1, 1993, who has any outstanding FFELP loan(s)) at the time of consolidation that was first disbursed before July 1, 1993.

**9.** A borrower who receives a Federal Consolidation loan made on or after July 1, 1993, who has no outstanding FFELP loans at the time of consolidation that were made on or after July 1, 1993.

## *Education-related deferments*

The *In-school deferment* generally allows a student borrower to postpone repayment during periods of full-time and half-time study at an eligible school. The student borrower is eligible for an in-school deferment provided he or she meets the following qualifications:

- The borrower is enrolled at an eligible school as a full-time student (for all borrower categories and loan types).
- The borrower is enrolled at an eligible school as at least a half-time student (for new borrowers of all loan types).

Also, it is important to note that effective October 1, 1998, a borrower is eligible for a deferment based on at least half-time enrollment without being required to receive another loan to take out a new loan for that enrollment period.

PLUS loans may be deferred based on the enrollment status of a dependent student for PLUS borrowers whose first loan was disbursed from July 1, 1987, to June 30, 1993.

When determining a borrower's eligibility for an in-school deferment, the following factors must be taken into account:

- A borrower must be enrolled on at least a half-time basis. Full-time or half-time enrollment status is determined by the individual school.
- A borrower may be enrolled in an undergraduate, graduate, or a doctorate program.
- Simultaneous enrollment at more than one school may constitute half-time or full-time enrollment, provided that a single school certifies enrollment for all of the schools.
- Enrollment in a correspondence school program alone is considered half-time enrollment.
- An eligible school is one that participates in any Title IV Program, that is operated by a federal agency (such as a service academy), or has received a determination from the Department of Education that it qualifies as an eligible school.
- A borrower who is not a national of the United States is not eligible for an in-school deferment based on attendance at a foreign school located outside the United States.

The *Graduate Fellowship Deferment* allows a borrower to postpone repayment if the borrower is participating in a fellowship program. This deferment is available to all borrowers. A borrower is eligible for the graduate fellowship deferment if the borrower is participating in a fellowship program that:

- Provides sufficient financial support to allow for full-time study for a period of at least six months;
- Requires, prior to the awarding of funds, a written statement from each applicant explaining the applicant's objective;
- Requires a graduate fellow to submit periodic reports, projects, or other evidence of progress;
- Accepts the course of study at a foreign university for completion of the fellowship program;
- Requires the borrower to hold at least a bachelor's degree; and
- Requires the borrower to have been recommended by an institution of higher education into the program on a full-time basis.

The *Rehabilitation Training Program Deferment* allows a borrower to postpone repayment while he or she is participating in a rehabilitation program. This deferment is available for all borrowers. PLUS loans may be deferred based on the eligibility of a dependent student if the PLUS loan was disbursed on or before June 30, 1993. Borrowers qualify for this deferment if:

- The borrower is receiving, or is scheduled to receive, rehabilitation services.
- The rehabilitation training program is licensed, approved, certified, or otherwise recognized as providing rehabilitation training to qualified individuals by a state agency responsible for vocational rehabilitation, drug abuse treatment, mental health services, or alcohol abuse treatment programs. When applicable, the program may also be licensed, approved, certified, or otherwise recognized by the Department of Veterans Affairs.
- The rehabilitation program provides the borrower with rehabilitation services under a written plan. The written plan is individualized to meet the borrower's needs and includes a specified end date for the services that the borrower is expected to receive.
- The plan is structured in such a way to require a substantial commitment by the borrower for his/her rehabilitation. A substantial commitment is defined as demanding time and effort that would normally prevent an individual from engaging in full-time employment, either because of the number of hours that must be devoted to rehabilitation or because of the nature of the rehabilitation. Full-time employment is defined as at least 30 hours of work per week in a position that is expected to last at least three months.

The *Internship/Residency Deferment* allows a borrower to postpone repayment if the borrower is in an Internship/Residency program. This deferment is available to Stafford or SLS loan borrowers whose first loan was disbursed on or before June 30, 1993. PLUS loans may be deferred if the loan was disbursed before August 15, 1983. Borrowers qualify for this deferment if:

- They are serving in a medical internship/residency program that leads to a degree or certificate awarded by an institution of higher education, hospital, or a health care facility that offers postgraduate training.
- They are serving in an internship/residency program that is required of the borrower to receive professional recognition in order to begin professional practice or service.
- They are serving in a supervised program that requires the borrower to hold at least a bachelor's degree before acceptance into the program.
- The institution provides a statement that the borrower has been accepted into the program.
- For a medical internship program, the borrower provides a statement from the certifying official of the program that is received with the effective start date and completion date for the program. In addition, the above referenced statement must include that the borrower's participation is a requirement for receiving a degree or certificate from an institution of higher education, a hospital, or a health care facility that offers postgraduate training.
- For a non-medical internship program, the borrower provides certification from both the authorized program official and the appropriate licensing agency which includes a statement that completion of the program is required before the borrower can begin professional practice or service.

The *Teacher Shortage Deferment* allows a borrower to postpone repayment while teaching in a shortage area. This deferment is available to borrowers whose first Stafford or SLS loan was disbursed from July 1, 1987, to June 30, 1993. The maximum length of this deferment is 36 months provided the borrower meets one of the following qualifications:

- The borrower is teaching full-time in a public or nonprofit private elementary or secondary school in a geographic region or specific grade level, academic, instructional, subject matter or discipline classification that has been designated as a shortage area defined by the Department of Education (as recommended by the chief state school officer of the state) .
- If the borrower received a teacher shortage deferment for the previous school year, the borrower may reapply for a continuation of the deferment even if the teaching area is no longer classified as a shortage area.

## Public service deferments

The *Armed Forces Deferment* allows a borrower to postpone repayment while serving on active duty in the armed forces. This deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993. A PLUS loan borrower whose first loan was disbursed before August 15, 1983 qualifies for this deferment. The maximum length of this deferment is 36 months. This is a combined limit with the Public Health Service and National Oceanic and Atmospheric Administration (NOAA) Deferments. For example if a borrower used 26 months of NOAA Deferment, the borrower will have 10 months of deferment remaining for the armed forces or public health deferment or a combination of the two. A borrower is eligible for the armed forces deferment if he or she

- Is on active duty in the Armed Forces of the United States. This includes the Army, Navy, Air Force, Marine Corps, and Coast Guard; or
- Is a member of the National Guard or Reserves and is serving in a full-time, active duty status for a minimum of one year; or
- Is serving as a full-time officer in the Commissioned Corps of the Public Health Service.

The *Public Health Deferment* allows a borrower to postpone repayment while serving as a full-time officer in the Commissioned Corps of the Public Health Service. This deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993. Also, a PLUS loan borrower whose first loan was disbursed before August 15, 1983 qualifies for this deferment. The maximum length of time for this deferment is 36 months. This is a combined limit with the armed forces and NOAA deferments. A borrower is eligible for the public health deferment if he or she:

- Is on active duty in the Armed Forces of the United States. This includes the Army, Navy, Air Force, Marine Corps, and Coast Guard; or
- Is a member of the National Guard or Reserves and is serving in a full-time, active duty status, for a minimum of one year; or
- Is serving as a full-time officer in the Commissioned Corps of the Public Health Service.

The *National Oceanic and Atmospheric Administration (NOAA) Deferment* allows a borrower to postpone repayment while on active duty in the National Oceanic and Atmospheric Administration. It is available to Stafford or SLS loan borrowers whose first loan was disbursed from July 1, 1987 to June 30, 1993. The NOAA deferment is limited to 36 months and the time is calculated in conjunction with the armed forces and public health service deferments. The borrower qualifies for this deferment if he or she:

- Serves on active duty in the National Oceanic and Atmospheric Administration; and
- Provides documentation of the period of service.

The *Peace Corp Deferment* allows a borrower to postpone repayment while serving in the Peace Corps. This deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993. Also, PLUS loan borrowers whose first loan was disbursed before August 15, 1983 qualify for this deferment. The maximum length of this deferment is 36 months. A borrower qualifies for this deferment if he or she:

- Serves as a full-time volunteer in the Peace Corps for a period of at least one year. The length of the deferment is based on the length of service.

Stafford or SLS borrowers whose first loan was disbursed on or after July 1, 1993, are not eligible for the Peace Corps deferment; however, they may request an Economic Hardship deferment under the Peace Corps qualifier.

The *Action Programs Deferment* allows a borrower to postpone repayment while serving as a volunteer in an ACTION (VISTA/Americorp) Program. This deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993. Also, PLUS borrowers whose first loan was disbursed before August 15, 1983, qualify for this deferment. The maximum length of the deferment is 36 months. To qualify;

- A borrower must be a volunteer serving in a full-time, paid position in a program comparable to the ACTION/VISTA programs, or in the Americorp program, for at least one year.

The *Tax Exempt Organization Deferment* allows a borrower to postpone repayment while serving as a volunteer with a tax-exempt organization. This deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993. Also, PLUS borrowers whose first loan was disbursed before August 15, 1983, qualify for this deferment. The maximum length of eligibility for this deferment is 36 months. A borrower is eligible for this deferment if he or she:

- Serves as a full-time volunteer for an organization that has been classified as tax exempt under Section 501(c) (3) of the Internal Revenue Code of 1986.
- The organization itself assists low-income people, and their communities, to eliminate poverty and poverty-related human, social, and environmental conditions.
- May not earn more than the federal minimum wage. However, the borrower may receive fringe benefits like those received by other employees of the organization.

Note that the borrower is *ineligible* for the tax exempt organization deferment if he or she provides religious instruction, conducts worship services, engages in religious fund-raising in support of religious activities, or proselytizes in any way. Proselytization includes, but is not limited to, attempting to recruit or convert (especially to a new faith, institution, or cause) an individual in exchange for food and/or shelter.

The *Military Deferment* allows a borrower to postpone repayment on certain loans while the borrower is serving on active duty during a war or other military operation or national emergency, or while performing qualifying National Guard duty during a war or other military operation or national emergency. This deferment is available only for a borrower's Federal Stafford and PLUS loans first disbursed on or after July 1, 2001, and Federal Consolidation loans disbursed on or after July 1, 2001, when all Title IV loans included were first disbursed on or after July 1, 2001. The maximum length of this deferment is three years. A borrower is eligible for the military deferment if he or she is serving:

- On active duty during a war or other military operation, or national emergency; or
- On qualifying National Guard duty during a war or other military operation, or national emergency.

## Family hardship deferments

The *Unemployment Deferment* allows a borrower to postpone repayment when the borrower is unemployed and seeking employment.  This deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993.  Also, PLUS borrowers whose first loan was disbursed on or before June 30, 1993, qualify for this deferment.  The aforementioned borrowers are eligible for up to 24 months of deferment. If the first loan was disbursed on or or before June 30, 1993. If the first loan was disbursed on or after July 1, 1993, the borrower is eligible for up to 36 months. To qualify for deferment, the borrower must be:

- Unemployed or underemployed (working less than 30 hours per week for a period of 3 months or more); and
- Seeking a full time position in the United States in any field; and
- Currently registered with a state or local public or private employment agency (unless there is not one within 50 miles of the borrower's current address); or
- Currently receiving unemployment benefits.

The *Parental Leave Deferment* allows a borrower to postpone repayment if the borrower is pregnant, caring for a newborn child, or caring for a newly adopted child. The deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993. The deferment is available for up to six months per occurrence.  Additionally, the borrower may not work full-time or attend school during the deferment period. The borrower must have been enrolled in school, on an at least half-time basis, within the six (6) months preceding the effective date of the deferment request.

The *Working Mother Deferment* allows female borrowers to postpone repayment when re-entering the workforce.  Stafford or SLS borrowers whose first loan was disbursed from July 1, 1987, to June 30, 1993, are eligible for up to 12 months of deferment provided they meet the following criteria:

- They have entered or re-entered the work force within the year preceding the effective date of the deferment request.
- They are working full-time (at least 30 hours per week).
- They are not earning more than $1.00 per hour above the Federal Minimum Wage.
- They are the mother of a child who has not yet enrolled in elementary school for first grade or higher.

The *Economic Hardship Deferment* allows a borrower to postpone repayment when the borrower is experiencing economic hardship.  The deferment is available to Stafford, SLS and PLUS borrowers whose first loan was disbursed on or after July 1, 1993 and is limited to a maximum of 36 months. To qualify for the Economic Hardship Deferment, the borrower must meet one of the qualifying conditions:

- The borrower is receiving federal and/or state public assistance (e.g., food stamps, welfare, SSI, WIC, AFDC, LEAP, TANF, etc.).
- The borrower is working full time with a gross monthly income (GMI) that is not more than the larger of the Federal Minimum Wage or the Poverty Line for a family of two for the state they reside in, whichever is larger.
- The borrower is not working full time with a GMI that is not more than two times the Federal Minimum Wage or two times the poverty line. In addition, the total remaining balance, after deducting the total cumulative amount of monthly student loan payment from the GMI, is not more than the Federal Minimum Wage or the Poverty Line for a family of two for the state they reside in.
- The borrower is working full time with an amount of monthly payments on all outstanding student loans equal to, or more than, 20 percent of the borrower's monthly-adjusted gross income. In addition, after deducting the total amount of monthly FFELP loan payments from the monthly adjusted gross income, the amount remaining must be less than 220 percent of the larger of the Federal Minimum Wage or the Poverty Line for a family of two for the state they reside in. When calculating if the borrower's total FFELP payment is equal to or greater than 20 percent of the borrower's GMI, all outstanding federal student loans are to be considered.
- The borrower has been granted an Economic Hardship Deferment on an outstanding Perkins or Federal Direct Student Loan for the period of time the borrower is requesting deferment for his or her FFELP loans.
- The borrower is an active-duty Peace Corps volunteer.

The *Temporary Total Disability Deferment* allows a borrower to postpone repayment due to disability.  This deferment is available to Stafford or SLS borrowers whose first loan was disbursed on or before June 30, 1993. PLUS  borrowers whose first loan was disbursed on or before June 30, 1993 qualify for up to 36 months of temporary disability deferment if:

- The borrower is under the care of a physician (who must either be a doctor of medicine or osteopathy and legally authorized to practice) and unable to work or attend school for a minimum of 60 days in order to recover from an injury or illness, or
- The borrower is caring for a dependent or a spouse who is temporarily totally disabled for a period of at least 90 days.

## Section IV : Knowing the regulatory requirements for forbearances

Forbearance is the temporary revision of the terms of the repayment schedule by the cessation of payments, an extension of time for making payments, or a reduction in the payment amount. The lender may grant forbearance based on either a written or verbal agreement with the borrower. During forbearance, payments to both principal and/or interest can be postponed.

Forbearance should be considered carefully as a temporary means to assist the borrower with repayment. If the student's financial situation is not strong enough to support making payments and the student does not meet any of the specified criteria for a deferment, then a forbearance is the most appropriate option.

Forbearance should only be granted if the lender believes the borrower intends to repay the debt once he or she overcomes the financial hardship. Keep in mind that a forbearance should never be granted if the borrower demonstrates an unwillingness to repay the debt either now or in the future.

Also, requests for forbearance can be denied - especially if the borrower's request shows that he or she is trying to accommodate a higher standard of living rather than because of a circumstance that has caused a strain on finances. Forbearance is to be used to assist borrowers with temporary periods of inability to submit payments. It is not meant to be a solution to a borrower's chronic financial difficulty.

In assessing the borrower's financial situation, customer service representatives should be aware of the four types of forbearance options available to borrowers. These options include the following;

- Discretionary Forbearance,
- Mandatory Forbearance,
- Administrative Forbearance, and
- Mandatory Administrative Forbearance

Although there are four forbearance options, customer service representatives will most likely work on a regular basis with the two most common types of forbearance, which are the Discretionary Forbearance and the Mandatory Forbearance. Therefore, this section will cover these two options at length. For a complete and thorough review of all forbearances, review the Common Manual (Section 11.18), also available online at www.tgslc.org/resources/integrated_online_manual.cfm#icm.

### *Discretionary forbearance*

Unlike deferments, borrowers are not entitled to a discretionary forbearance. However, lenders have the discretion and authority to offer forbearances to assist borrowers in the repayment of their debt when appropriate.

Discretionary forbearance is granted when the borrower is experiencing financial hardship that results in an inability to repay the debt. For example, financial hardship can occur when the borrower has experienced poor health, unemployment (beyond the deferment time), a reduction in work hours, or a life-changing circumstance.

Also, a discretionary forbearance in the form of reduced-payments can be granted if the borrower is experiencing financial difficulty. This allows the borrower to continue the pattern of submitting payments on the account.

Federal regulations require that discretionary forbearance be granted in increments not to exceed 12 months per occurrence. The 12-month forbearance can include past months and future months of forbearance. For

example, a forbearance that is granted six months retroactively (to cure a delinquency), can only be extended six months into the future. All forbearance requests need not be granted in 12-month increments. Each lender will have its own guidelines for granting forbearance.

Discretionary forbearance does not have a maximum time limit. Therefore, it is critical that each request be reviewed thoroughly in an effort to keep borrowers from entering default. As customer service representatives, some questions to consider when assessing the borrower's request for a forbearance are as follows:

**Questions to consider when assessing the borrower's request for a forbearance**

- ***What is the present status of the account?***
- ***How large is the balance?***
- ***How long has the account been in repayment? Consider the time remaining in the repayment period.***
- ***How much has the borrower paid?***
- ***How much forbearance has been granted in the past?***
- ***How much interest has accrued to the account?***
- ***Does the borrower's request strongly suggest other debt takes priority?***
- ***After granting the current forbearance request, will the borrower be able to adhere to a new repayment plan?***

### *Mandatory forbearance*

Unlike discretionary forbearance, lenders must grant mandatory forbearance to the borrower. Therefore, when speaking to borrowers, customer service representatives should familiarize themselves with the situations under which a student can request a mandatory forbearance. A description of these situations follows. Note that the borrower must provide documentation supporting eligibility.

- Borrower's participation in an Internship/ Residency program (beyond the timeframe requirements for a deferment)
- Borrower's participation in a national service position where he/she will receive an award under the National and Community Service Trust Act of 1993 (Americorp)
- Borrower maintains eligibility for loan forgiveness under the Teacher Loan Forgiveness Program and lender believes that the cancellation amount will satisfy the anticipated loan balance at the time of the expected cancellation
- Borrower's service that will qualify the borrower under the Child Care Provider Loan Forgiveness Program
- Borrower's service that will qualify the borrower for partial loan repayment under the Student Loan Repayment Programs administered by the U.S. Department of Defense

Mandatory forbearance can be granted in increments of 12 months, with no maximum time limit as long as the borrower maintains eligibility.

### *Interest accrual during forbearance*

An effective default prevention method that customer service representatives can use when counseling borrowers is to provide them with a real example demonstrating the effects of a forbearance on their total loan balance. Borrowers should be alert to the fact that interest continues to accrue to the account during periods of forbearance. Although accrued interest is calculated on a simple daily basis, interest can accumulate over time and result in a much higher loan balance.

Additionally, borrowers should be cautioned that forbearances can result in a higher monthly payment once the forbearance period ends. This is one of the disadvantages of forbearance. Since additional interest accrues to the account during forbearance and the length of the repayment period remains the same, the amount of the monthly payment will most likely increase.

**The following formula demonstrates how simple interest is calculated:**

**Interest Accrued**

= Principal loan balance **x** Interest rate **x** Number of days in forbearance **/** 365.25

Example: How much interest accrues on 6-month forbearance from April 1 to September 30?

| | |
|---|---|
| **Average principal loan balance:** | **$10,000** |
| Interest rate: | **x** .08 |
| Days in forbearance: | **x** 182 |
| Divided by: | **/** 365.25 |
| **Total interest accrual:** | **$398.63** |

For more information on the frequency of interest capitalization, review the *Common Manual* (Section 10.10.B)

## Section V : Practice scenarios - Determining the most appropriate repayment option

Knowing the rules and regulations about deferments and forbearances is important in helping borrowers with loan repayment. More importantly, it is critical that borrowers are advised on the most appropriate repayment option based on their financial situation. Following are some scenarios that can help customer service representatives assess a borrower's financial situation and determine the most appropriate repayment option.

### Scenario A:

Jennifer is working, earning $4,000 each month, but is having a hardship because of a recent divorce and moving to a new location. She is currently under the standard repayment plan, and she'd like to postpone payments for just a couple of months while she gets back on her feet.

*Solution:* First of all, Jennifer exceeds the minimum salary requirements to qualify for an Economic Hardship Deferment. One option for her would be to change from a standard repayment plan to a graduated repayment plan. This would allow her to reduce the payment amount while she gets back on her feet. Another option would be a reduced-payment forbearance.

### Scenario B:

Robert has used 60 months of forbearance and all of the unemployment deferment option. His loan balance has reached $45,000, and Robert doesn't want to share his gross monthly income, making it difficult to qualify him for an Economic Hardship Deferment.

Solution: Robert appears to have already received substantial forbearance and deferment assistance. Therefore, to approve another forbearance would only encourage Robert not to pay on his loan. A more effective way to handle this type of situation might be to advise Robert of the different repayment options. A standard repayment option or an extended plan (if he qualifies) would be the most appropriate guidance for Robert.

### Scenario C:

Brian has called and requested forbearance for a few months. He is the assistant manager of a retail store and makes $6.25 per hour. He's only working about 30 hours per week. He has no other student loans, but he pays $200.00 in child support each month. All of his loans were disbursed after July 1, 1993, his balance is $23,000, and his monthly payment is $178.00.

*Solution:* In this case, Brian's annual income is below the poverty line, so he would qualify for an economic hardship deferment. Unaware of the deferment option, Brian is requesting a forbearance. In this instance, it is the responsibility of the customer service representative to give Brian the option to apply for an economic hardship deferment.

### Scenario D:

Terry has called in and wants to know if there is any way to help her with her payments. With all of her student loans with the various servicers/lenders, she pays $800.00 a month and is having a very difficult time. Her annual salary is $48,000. What options are available?

*Solution:* In this instance, consolidation or a graduated repayment plan would be appropriate repayment options for Terry to consider. Consolidating her loans will allow Terry to combine all her loans, reduce her payments, and make one combined payment. However, Terry should be warned that if she chooses to consolidate, she will end up paying more interest over the life of the loan. Another option for Terry would be to change from a standard repayment plan to a graduated plan. This would allow her to have a reduced payment at the beginning of repayment and then have the payment adjusted as her salary increases. The disadvantage to this second option is that Terry will still have to manage her loans with the different lenders.

## Section VI : Understanding the impacts of an adverse credit history

Knowing the rules and regulations pertaining to loan repayment options is an integral part of a successful conversation with student borrowers. However, in order to have a meaningful conversation with the borrower, and to build a sense of urgency in the borrower, it is extremely important to explain to the borrower the long-term and damaging effects that defaulting on a student loan can have on their lives.

There are a number of consequences to default, but one of the most significant effects is the impact that a student loan default has on an individual's credit report. In speaking with borrowers, it is highly recommended that customer service representatives discuss the implications of a bad credit history on lifestyle.

Credit history plays a major role in an individual's ability to purchase things like a car or a house. It can affect whether a lender will extend credit to a borrower as well as the interest rate the borrower will be charged for the loan. It can even prevent an applicant from getting that dream job. As mentioned previously, the FFELP provides borrowers with a wide variety of options so that repayment of student loans does not have to be a financial burden, and borrowers can maintain good credit histories. Many borrowers do not realize the long-term, damaging effects of not paying back their student loan.

### *How repayment history affects a borrower's credit report*

By regulation, lenders are required to report repayment history to at least one national credit bureau organization. While lenders must report the repayment status of delinquent loans, they may have different criteria for reporting the initial delinquency of a loan. Student loan delinquency and default can have severe impacts on a borrower's credit report and credit score.

A *credit score* is a numerical value calculated by banks, credit card companies, auto dealers, mortgage lenders and others to predict the likelihood of certain credit behaviors. While there are many factors that determine a credit score, on-time payments are the most significant contributor to a good credit score. A poor repayment history on a credit report is a potential indicator of future non-payment of debt. Late payments are almost always viewed negatively by credit providers and may result in a denial of a credit application. This means that borrowers who have a low credit score will be unable to make any major purchases on credit. They will have to find an alternative way to buy such things as major appliances, cars, or a house.

Recent or multiple inquiries on a credit report can also negatively affect a credit score by indicating a potential credit risk. Inquiries alone may be viewed differently by credit providers and may not play a significant role in calculating a borrower's credit score. However, when coupled with other issues such as late payments, inquiries become more of a factor when calculating a credit score.

Typically, borrowers defaulting on their student loans do not regularly update their addresses with lenders; therefore, lenders must make inquiries to credit bureaus to locate borrowers. In order to avoid unwanted credit report inquiries, borrowers should be reminded to notify their lender or servicer when they move or change telephone numbers.

Also, it is important to inform borrowers about the effects that periods of deferment and forbearance can have on their credit report. Deferments and forbearances are not reported as negative credit history on a borrower's credit report. However, how credit companies interpret these statuses is subjective. Also, one thing that is certain is that if a borrower is granted a deferment or forbearance or makes a payment to bring a delinquent loan current, this action will not reverse any prior negative credit history.

## Contacting credit reporting bureaus

Speaking with borrowers about the impacts of a bad credit history usually leads them to ask about how to rectify a low credit score. In such instances, borrowers should be encouraged to contact the three credit bureau organizations for credit counseling and/or additional information regarding their credit file.

Also, borrowers have the option of obtaining a free copy of their credit report once a year from each credit bureau by going to the following Web site:

- www.annualcreditreport.com

Additionally, if a borrower disputes information reported on his or her credit report, the borrower should contact the credit bureau that is reporting the item in question and file a credit dispute.

Borrowers inquiring about how to file a credit dispute should contact one or all of the three following national credit bureau organizations:

- Experian - 1(888) 397-3742 or www.experian.com
- Equifax - 1(800) 685-1111 or www.equifax.com
- TransUnion 1(800) 888-4213 or www.transunion.com

In instances of credit disputes pertaining to a borrower's student loan, the credit bureau will notify the lender of the dispute once the dispute has been filed, including relevant information provided by the borrower. The lender is required to review and respond to the dispute within 30 days of notification. In most cases, if a correction is made with one national credit bureau, the corrected information will also be forwarded to the other national credit bureaus.

## Understanding reporting requirements for lenders/servicers

Lenders are required to report information to credit bureaus within specific time frames, but lenders may choose to report information earlier depending on their company policies. It is important for customer service representatives to be aware of the credit reporting policies for their organizations. For instance, understanding when, how, and why credit is reported is as important as gaining a good understanding of the organization's credit dispute and retraction policies. Knowing this information will help prepare customer service representatives for speaking with borrowers. Following is a summary of the federal requirements about credit reporting for lenders and servicers.

A lender is required to report:

- Each FFELP loan it makes or holds individually to at least one national credit bureau.
- The total amount of each loan within 90 days of each disbursement.
- The outstanding balance of each loan.
- Repayment status of delinquent loans.
- Status changes at least on a quarterly basis.
- Date the loan is paid in full by or on behalf of the borrower within 90 days of the paid-in-full date.
- Date the loan is discharged due to the borrower's death, disability, or bankruptcy within 90 days of the discharge date.

- Date the loan is discharged due to a closed school or false certification within 30 days of being notified that the loan is discharged. The lender must also request that the credit bureau remove any negative credit history regarding the loan discharged.
- Other information required by federal or state law.

Although the above requirements are not something that borrowers will want to know directly, it is information that can help customer service representatives in discussing the implications and serious consequences of borrowing and most importantly the importance of paying back their student loans.