MODULE 2 – Monthly Payment Obligations

SLIDE 1 – Title Slide

Welcome to the Maryland Student Loan Ombudsman's Educational Curriculum - Module 2: Monthly Payment Obligations for Student Education Loans.

This presentation was prepared by the Maryland Student Loan Ombudsman in the Office of the Commissioner of Financial Regulation at the Maryland Department of Labor.

For more information about the Ombudsman and the Office of the Commissioner of Financial Regulation, please visit our website at www.labor.maryland.gov/finance.

SLIDE 2 – Starting Your Student Loan Repayments

You must begin repaying your student loans when you graduate school or drop below half-time enrollment. Typically, there is a grace period of six months after leaving school, and during this grace period a loan payment is not due. After the grace period has passed, you will need to start repaying your loan on a monthly basis and these payments have to be made by each due date.

You will receive monthly statements from your student loan servicer with the amount due and the payment due date.

A *student loan servicer* is the person or company that tracks your loan while you are in school, maintains your student loan records, responds to your inquiries, sends you your monthly bill and then collects and processes your loan payments, accepts and processes applications you submit for changes in loan repayment status, and performs other tasks associated with maintaining a student loan on behalf of a lender.

You should contact your student loan servicer for details about your grace period and your monthly due date.

SLIDE 3 – Monthly Loan Payments: Principal and Interest

Your monthly payment is made up of two parts, principal and interest, which you make in one payment.

Principal is the total sum of money borrowed plus any interest that has been capitalized, meaning any interest that has been added onto your loan balance.

Interest is the cost paid for borrowing money. It is charged by a lender, and paid by a borrower for the use of the borrowed money. Interest is calculated as a percentage of the unpaid principal amount of the loan. Interest is charged over time, meaning the longer it takes you to repay the loan, the more interest you will pay.

Interest also continues to grow (or "accrue") while you're in school, during any grace period or deferment period, or while your loan is in forbearance.

Your lender may capitalize this interest by calculating the amount of interest owed and adding it to the total amount you owe. The capitalized interest becomes part of the principal, possibly causing your monthly payment amount to increase. Capitalized interest and, if applicable, late fees may be also added to your monthly payment amount.

SLIDE 4 – Keeping Track of Your Student Loans

If you have received multiple loans, you must repay each of them separately. This means that you may have multiple monthly payments to make if you have not consolidated your loans. Therefore, it's important that you keep track of the number of loans you have received, as well as the types of loans and the servicer for each loan.

The National Student Loan Data System (or NSLDS) is an online federal database for student aid and loan programs. You can use the NSLDS system to view your federal loans and loan status, among other information.

You can access the NSLDS at nsldsfap.ed.gov/nslds_SA. Click on "My Student Data Download", review the privacy terms, and you will be directed to a login screen. You'll need your FSA ID, which you originally created when you first applied for federal financial aid through FAFSA.

SLIDE 5 – Student Loan Consolidation

Loan consolidation involves taking out one large loan to repay several small loans. A Direct Consolidation Loan allows you to combine (or "consolidate") multiple federal education loans into one loan.

Consolidation provides you with one loan, at one interest rate and with one single monthly payment, instead of multiple loans with multiple payments. Loan consolidation can also give you access to additional loan repayment plans or forgiveness programs. (See Module 3 for information about federal student loan repayment plans and Module 4 for an explanation of loan forgiveness programs).

You cannot include any private loans that you have if you are consolidating your loans through a federal consolidation program.

SLIDE 6 – Student Loan Consolidation (continued)

There are some considerations to weigh before you proceed with loan consolidation, particularly if you wish to seek loan forgiveness through the Public Service Loan Forgiveness program. Any qualifying payments you made prior to consolidation will NOT be counted toward the Public Service Loan Forgiveness program – only payments made after consolidation will be considered "qualifying payments."

If consolidation would cause you to lose the benefits associated with some of your current loans, and you are working toward earning those benefits, you should not include those loans in your new Direct Consolidation Loan.

Remember that when you apply for a Direct Consolidation Loan, you do NOT have to consolidate all of your eligible loans.

SLIDE 7 – Subsidized vs. Unsubsidized Student Loans

Subsidized loans are typically federal student loans for which the U.S. Department of Education charges you no interest (or "subsidizes") while you are in school and during other periods where you are not required to make monthly payments. Subsidized loans are available for eligible students who demonstrate financial need.

Unsubsidized loans, on the other hand, are loans for which the borrower is responsible for paying all of the interest, that build up on the loan while they are in school, regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement of the loan and continues accruing throughout the life of the loan. Private student loans are typically unsubsidized and you can expect to pay all of the interest that accrues, including interest that is charged while you are in school.

SLIDE 8 – Student Loan Deferment vs. Forbearance

Your student loan repayment may be put on hold after the grace period - but you must request this from your student loan servicer. Your servicer may put you in either deferment or forbearance. Both deferment and forbearance allow you to temporarily stop making payments or to temporarily reduce your monthly payment amount for a specified period.

But there is an important difference between the two.

With a deferment, you will not be responsible for paying the interest that accrues on the loan during the deferment period. Deferment is only an option for certain types of loans: the Direct Subsidized, Subsidized Stafford, Federal Perkins, or the subsidized portion of Consolidation Loans. You can request a deferment for being in school or military service, including post-active duty; participating in a graduate fellowship or rehabilitation training; having a Parent PLUS loan; or if you are experiencing unemployment or financial hardship.

With forbearance, you will be responsible for paying the interest that accrues during the forbearance period. You can choose to pay the interest as it accrues (meaning you are only paying interest during the forbearance period), or the interest will be capitalized with the principal amount.

SLIDE 9 – Student Loan Default

If your lender is unable to obtain payment from you for 270 days, they may place your loan in default and attempt to collect on the loan.

Private loans may be placed in default as soon as 120 days, depending upon the private lender's own loan terms.

Your loan holder may even "accelerate" a defaulted loan, which means that the entire balance of the loan (principal and interest) becomes due in a single payment.

SLIDE 10 – Student Loan Default (continued)

Once your federal student loan goes into default, you could face a number of consequences:

- Your wages may be garnished without a court order.
- You can lose some or all of your tax refund or Social Security payment – instead these funds would be applied toward your defaulted student loan.
- Credit reporting agencies will be notified, and your credit score may suffer.
- You may not receive any additional federal student aid if you are in default on any federal student loan, until you have taken steps to bring your federal student loan out of default.

The collection process for private student loans may differ depending upon the lender's requirements and collection processes, but you could still face some or all of these consequences if a collection action is brought against you for a defaulted private student loan.

If you have missed one or more student loan payments, or if you are at risk of falling behind on your payments, you should contact your student loan servicer *as soon as possible* to ask for assistance. The sooner you reach out for help, the better. Always contact your student loan servicer directly using the contact information on your monthly bill.

SLIDE 11 – Module 2 Resources

This concludes the Maryland Student Loan Ombudsman's Educational Curriculum for Module 2: Monthly Payment Obligations for Student Education Loans.

Please make note of these resources.

- National Student Loan Data System (NSLDS) – Student Access
  nsldsfap.ed.gov/nslds_SA
- Federal Student Aid/U.S. Department of Education
  studentaid.gov/h/manage-loans
  studentaid.ed.gov/sa/sites/default/files/repaying-your-loans.pdf
  studentaid.gov/manage-loans/consolidation
- Consumer Financial Protection Bureau *"What happens if I default on a federal student loan?" (June 23, 2021)*
  www.consumerfinance.gov/ask-cfpb/what-happens-if-i-default-on-a-federal-student-loan-en-663

See also the PDF version of the Maryland Student Loan Ombudsman's full Educational Curriculum - which is available on the website of the Office of the Commissioner of Financial Regulation at www.labor.maryland.gov/finance.