On Repaying Federal Student Loans While Incarcerated

REENTRY MYTH BUSTER!

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A Product of the Federal Interagency Reentry Council

MYTH: It is not possible for incarcerated individuals to get out of default or avoid defaulting on their federal student loans.

FACT: If an incarcerated individual is not in default on their federal student loans they could be eligible for one of the income-driven repayment plans. Under these plans, the individual may qualify for reduced or $0 payments on their student loans. By using these payment plans, individuals may eventually pay off their loans. If an incarcerated individual defaults on a federal student loan, he or she must resolve the default before taking advantage of an income-driven repayment plan.

How do I find out if my loan is in default? What if I only received a Pell Grant?

Default means that you are not paying back your loan on time or in the way or amount you agreed to when you took out the loan. Having a federal student loan in default makes you ineligible for new federal student loans and grants, and it diminishes your credit score. You may be in default status if you received a Pell Grant and dropped out of school prior to completing the semester (or enrollment period). If this happened, a portion of that *grant* (that you did not need to pay back) may have become a *debt* (that you must pay back). You could be in default on a student loan without knowing it. Therefore, the first step in determining your eligibility for loan rehabilitation is verifying your student loan status. Here is how:

If you have your log-in information, check StudentAid.gov to make sure there is no federal student loan in default or a Pell Grant overpayment for you on file *anywhere* (StudentAid.gov/login).

If you need to request this information in writing instead, send your Social Security Number, legal name, and date of birth to:

U.S. Department of Education
Federal Student Aid Information Center
P.O. Box 84
Washington, DC 20044

In your letter, ask for:

- a list of all of the federal student loans you owe;
- the status and current balance of all of the loans; and
- the contact information of each organization to which you owe a loan.

My student loan is not in default. How can I sign up for an income-driven repayment plan?

In order to sign up for an income-driven repayment plan, you must submit an application called the Income-Driven Repayment Plan Request. You may have to consolidate existing loans before submitting this application. You can submit the application online at StudentLoans.gov or on a paper form, which you can get from your loan servicer by sending them a written request. The application allows you to select an income-driven repayment plan by name, or to request that your loan servicer determine what income-driven plan or plans you qualify for, and then place you on the income-driven plan with the lowest monthly payment amount. Be sure to read all the rules and instructions about income-driven repayment plans so there are no surprises.

My student loan is in default status. Now what?

If you have a loan in default the first thing you need to do is rehabilitate your loan. That means "get it out of default." You can do this by: (1) entering into a rehabilitation agreement with the organization managing your loan (this could be a collection agency or a guaranty agency), and then (2) making nine consecutive monthly payments after entering into the rehabilitation agreement. The rehabilitation agreement will specify your required monthly payment, which will be calculated based on your income or your income and expenses. For many incarcerated individuals, the payment required to rehabilitate the defaulted federal student loans will be five dollars per month. However, if you have a Pell Grant overpayment, you cannot rehabilitate your overpayment and will need to make arrangements for repayment.

After you rehabilitate your defaulted federal student loans, your loans will be transferred to another organization for servicing. This transfer may affect your interest rate or the terms of your loan. Visit StudentAid.gov to view information about all of the federal student loans you have received and to find contact information for the loan servicer or lender for your loans. If you do not have Internet access, you may send a letter to the Federal Student Aid Information Center at the address above. After the new organization takes over management of your loan, you will want to choose a repayment plan for your loans. If you choose an income-driven repayment plan (see above), where payments are based on your income, your payments will likely be $0. In order to pay off most loans, you need to make 240 or 300 monthly payments. These $0 monthly payments count toward the necessary number to pay off your loans while you are incarcerated. Note, however, that upon your release from incarceration, this payment amount will likely increase, as it is based on your income. Keep in mind, when calculating your repayment amount your spouse's income may be included as well.

Financial aid language and terminology can be confusing. Below are some commonly used terms and definitions.

Delinquent: A loan is "delinquent" when loan payments are not received by the due dates. A loan remains delinquent until the borrower makes up the missed payment(s).

Default: A loan is in "default" when you don't repay the loan according to the terms agreed to. It takes about a year of non-payment to default on a federal student loan, but this may vary.

Income-driven repayment plan: An income-driven repayment plan refers to one of the repayment plans for federal student loans that bases your monthly payment amount on your income and family size.

Loan Forgiveness: The release of the borrower's obligation to repay all or a designated portion of a federal student loan.

Rehabilitation: A process that removes a loan from default after the borrower makes nine voluntary, reasonable, and affordable monthly payments within twenty days of the due date during ten consecutive months.

Repayment: If a borrower is in repayment on a federal student loan, it means the borrower has an obligation to make a scheduled payment each month or postpone repayment through deferment or forbearance.

Where do I begin?

If the Studentaid.gov website or the response letter from the Federal Student Aid Information Center containing loan information says your loan is owned by the U.S. Department of Education, the first step is to call the Default Resolution Group at 1-800-621-3115 or visit myeddebt.ed.gov to obtain information about "loan rehabilitation" and income-driven repayment plans. If you are unable to speak with the Default Resolution Group, you may write them requesting this information. Your letter should explain that you cannot speak over the phone. You can also learn more about income driven repayment plans by visiting StudentAid.gov/IDR.

Send the information request letter to:
U.S. Department of Education
Default Resolution Group
P.O. BOX 5609
Greenville, TX 75403

If your letter from the Federal Student Aid Information Center says that your student loan is owned by a different organization than the U.S. Department of Education, send the information request letter to the organization that owns your loan.

In response, you may be asked to complete a form to document your income and expenses, or to provide documentation of your income or a written letter explaining your financial circumstances. Remember, by rehabilitating your loan and entering a repayment plan you will be helping to repair your credit and ensuring that you and your spouse are eligible to receive appropriate tax credits, when applicable. You will also ensure that you have immediate access to student loans upon your release should you decide to continue your education.

What is a REENTRY MYTH BUSTER?

This Myth Buster is one in a series of fact sheets primarily intended to clarify federal policies that affect formerly incarcerated individuals and their families. Each year, more than 600,000 individuals are released from state and federal prisons. Another 11.4 million cycle through local jails. When reentry fails, the social and economic costs are high -- more crime, more victims, more family distress, and more pressure on already-strained state and municipal budgets.

Because reentry intersects with health and housing, education and employment, family, faith, and community well-being, many federal agencies are focusing on initiatives for the reentry population. Under the auspices of the Cabinet-level interagency Reentry Council, federal agencies are working together to enhance community safety and well-being, assist those returning from prison and jail in becoming productive citizens, and save taxpayer dollars by lowering the direct and collateral costs of incarceration.

For more information about the Reentry Council, go to: https://csgjusticecenter.org/nrrc/projects/firc/