

# DEBUNKING the Top Myths About Student Loans

In the United States, furthering your education costs money. As a result, approximately **44 million Americans** are actively working to pay down the federal or private student loans that helped them pay for their higher education.

Despite widespread use of student loans, the student loan system can be **very complicated** and difficult to navigate. As a result, borrowers often don't know or understand the terms of their particular student loan. With so many loan choices, differences among loan terms and misinformation circulating in the press, student loan consumers can be confused about their options and overwhelmed by **unclear information**.

Let's address some of the top  
→ **myths & misperceptions**  
about student loans today:

**MYTH:** Student loans cannot be discharged even in the case of a bankruptcy.

## Not necessarily true.

Federal and private student loans **can be discharged** via bankruptcy, but the borrower must prove to the judge they have made ongoing good faith efforts to repay the loan and that continuing the loan after other debts are discharged would be an **undue hardship** – approximately 25% of cases actually meet this standard.

**MYTH:** No one ever qualifies for student loan forgiveness.

## Not true.

Federal student loans offer **certain situations** that may allow your loans to be forgiven. For example:

- If you are a full-time teacher working for five consecutive years in a low-income school or
- If you are employed by a government or not-for-profit organization.

Most importantly, a borrower employed in a public service job must make 120 regular payments to qualify for these programs. Unfortunately, many borrowers apply for loan forgiveness **before they are eligible** and experience frustration when they are told they are not yet eligible.

**MYTH:** Consolidating your student loans will reduce the total amount that you owe.

## Not true.

While federal student loans can be consolidated, doing so **does not change** the amount of the loan owed. When you consolidate, your interest rate will change to the average weighted balance of your existing interest rates. You may be able to lower your monthly payments by extending the life of the loan, but doing so will **increase the amount** of loan interest you will pay.

**MYTH:** Income-based repayment is the best student loan option for all.

## Not necessarily true.

It depends on the **income level** and **financial priorities** of the borrower. Federal student loans offer income-based repayment plans for borrowers whose loan payments are high compared to their income. The plans can lower a borrower's monthly payment, but interest **accrual can increase** the amount of interest that ultimately must be paid. Borrowers who switch to an income-based repayment plan must recertify their income annually. This option is best for borrowers struggling with an income that is low and will stay low or someone whose income is low and it will rise slowly over time.

**MYTH:** Student loan servicers want you to fail in paying back your loan.

## Not True.

Student Loan Servicer's financial interests are invested in the borrower's success & actively work to **support their loan repayment** efforts. Student Loan Servicers work to help borrowers understand and navigate all the repayment options for their loan so they can choose the options that **work best** for their budget.

**MYTH:** You are stuck with the loan terms you agreed to when you originally took out your student loan.

## Not necessarily.

When you take out a federal loan, you agree to a specific set of loan terms that are in place for the life of the loan – just the same as any other financial agreement you make. Student loans provide **multiple repayment options** and allow a borrower to **reduce or defer** their payments. Private student loans can also be refinanced, which means your old loan is paid off and you will initiate a new loan with potentially different terms – like lower interest rates or a longer term of repayment. It's **very important** to understand the **specific terms** of your loan and shop around to compare the terms among different loan products when choosing your student loan.

**MYTH:** If I experience a financial hardship, I will have to struggle to pay my current monthly loan payment amount.

## Not true.

There are **many options** for **federal borrowers** facing a financial hardship – income-based repayment, graduated repayment, step repayment, a hardship deferment, paying loan principal only, etc. For **private loans**, the available financial hardship options are set within the **terms of your loan contract**. Your Student Loan Servicer can walk you through all of the options and help you determine which is best for your personal situation.

**MYTH:** Federal student loans have the lowest interest rates.

## Not necessarily.

If you have very good credit and a cosigner, you might qualify for a private student loan with an interest rate lower **than a federal interest rate**. But for most borrowers, a federal student loan will have the lowest available interest rate and also offers taxpayer subsidized benefits. Borrowers should weigh and **understand all of their loan options** before locking into a student loan.

**MYTH:** My Student Loan Servicer is blocking me from reducing my loan interest rate.

## Not true.

Federal student loan interest rates and terms are **set by Congress** and **cannot be adjusted** by the Student Loan Servicer. Similarly, private student loan interest rates and terms are **set by the lender** and **cannot be changed by the Student Loan Servicer**. However, private loans could be refinanced via another private lender for a lower rate, if you qualify. Student Loan Servicer's work to support you as you pay down your student loan. They can only provide the rate and loan terms you agreed to when you initially took out your student loan.

**MYTH:** I can stop making the monthly payments on my loan and pursue student loan forgiveness.

## The opposite is true.

Student loan forgiveness requires that you are enrolled in an **income-driven repayment plan** and make at least **120 regular monthly loan payments**. If you stop making payments on your student loans, **you will not reach eligibility** for student loan forgiveness – and your credit score will be negatively impacted. Instead, **contact your Student Loan Servicer** to discuss the repayment options outlined in your loan terms. You may need to switch to a different repayment plan to reach your goals.

**MYTH:** I will pay a penalty if I pay off my student loans early.

## Not true.

Student loans are one of the few loans where paying off early has **no penalty**. If you can afford to pay more than your minimum monthly payment, **you can pay your loan off early** – which reduces the amount of interest you will pay on your loan.