

CHAPTER TEN

Questions and Answers

WHAT A BORROWER SHOULD KNOW ABOUT REPAYING STUDENT LOANS

Q1. WHICH LOANS CAN BE SOLD TO ANOTHER LENDER?

- A. Federal Stafford Loans (subsidized and unsubsidized).
- B. Federal Supplemental Loan for Students.

Q2. WHAT IS A SECONDARY MARKET?

- A. A secondary market is an organization which purchases loans originated and disbursed by another lending institution.

Q3. IS THERE A DIFFERENCE BETWEEN A SERVICER AND A SECONDARY MARKET?

- A. A secondary market is a lender (or owner) of loans originated by a different lender. A servicer maintains the product (student loans). Both original lenders and secondary markets can act as servicers for the loans they own. They can also service loans for other lenders who prefer to limit their costs. In addition, third party servicers may have contracts with lenders to service their student loan portfolios. The servicer is paid a predetermined fee (usually per account) for their service.

Q4. WHO OWNS MY LOANS?

- A. At disbursement your loan is owned by a lender; usually the lender from whom you received the application. However, after disbursement your loan can be sold to another lender, acting as a servicer or a secondary market.

Q5. DO I ALWAYS PAY MY ORIGINAL LENDER?

- A. No. If your loan is sold, you are notified by the original lender and you would pay the new owner. Federal Stafford loans can be sold more than once so by the time your loans have been repaid, you could have paid several different parties.

Your original lender or any lender may also contract with a student loan servicer for all servicing activities related to your loan. These services include collection of payments and administration of borrower benefits. So you might pay a servicer in lieu of your actual (original or subsequent) lender.

Q6. WHO DO I CALL WHEN I'M CONFUSED?

- A. It depends on what information you need. The most important party during repayment is the one performing your loan servicing activities. This party can be the original lender, a secondary market, or a contract servicing organization. You must carefully read correspondence from all parties to be certain that you understand who the servicer is.

Q7. WHY WAS MY LOAN SOLD?

- A. Although a student loan is a means to help pay for your education, in the financial community, student loans are considered an investment as well as a community service to be bought, sold and traded much like stocks or other commodities. Often, student loans are sold by the original lender to generate income for other shorter term or more profitable lending products or, in some cases, to provide additional student loan funding.

Because student loans require servicing, many lenders cannot afford the costs associated with this servicing, therefore they sell to a secondary market or use a servicer.

Q8. ARE ALL MY LOANS BOUGHT AT THE SAME TIME?

- A. Not necessarily. As previously stated, loans can be sold after disbursement. They can also be sold while you are in school, in deferment or even in repayment.

Q9. CAN I BE SURE MY LOANS WON'T BE SOLD?

- A. No. Your promissory note contains a seller's clause which allows a lender to sell the loan.

Q10. WHO IS RESPONSIBLE FOR NOTIFYING ME IF MY LOANS ARE SENT ELSEWHERE?

- A. The sender, the receiver and you. In virtually all student loan transfer transactions, both the originator and receiver send notification of the transfer (which might also be called the "conversion" or the "sale"). However, you must be certain that the originator has your correct, current address or you may never receive these notices.

Q11. WHAT HAPPENS TO THE MONEY I HAVE ALREADY PAID TOWARDS MY PRINCIPAL AFTER THE LOAN(S) ARE SOLD?

- A. The loans are sold for the "current outstanding principal balance" not the original principal. So if you paid off \$10,000 of loans worth \$20,000, the buyer is only purchasing \$10,000 of loans plus any accrued interest.

Q12. DO I HAVE TO REFILE DEFERMENT FORMS IF MY LOAN IS SOLD?

- A. Not necessarily. If the deferment was granted or processed by the original lender, there should be no problems. All paper documents are transferred with the loan. However, it is possible for documents in process to become lost or not to reach their destination and you may be required to resubmit the forms. A good rule is to keep a copy of any documents sent to a servicer (and to send all documents via certified mail, “return receipt requested”).

Q13. DO MY LOANS CHANGE IN ANY WAY AFTER THEY ARE SOLD?

- A. No, interest rate, repayment status and deferment eligibility all remain the same.

Q14. MY LENDER HAS HIRED A SERVICER TO COLLECT MY LOAN, I HAVE QUESTIONS AND CANNOT GET THROUGH TO MY SERVICER BY THE NUMBER PROVIDED. WHAT DO I DO?

- A. Contact your lender or guarantor and register a complaint. Demand a name and a direct telephone number but be prepared to pay for the call. (Not an 800 number).
Check the website for additional contact numbers.

Q15. ARE THERE ANY STATE LOAN REPAYMENT OR FORGIVENESS PROGRAMS CURRENTLY AVAILABLE?

- A. There are several programs available in many states. Please refer to the Financial Aid Office, your professional associations or your residency program directors.

Helpful Hint: Keep a log of all calls made regarding your loan with dates, times, subject and name of contact person.

QUESTIONS YOU SHOULD ASK OR EXPLORE ON LENDER WEBSITE

1. Who holds and services all your loans?
2. What is the current status of each loan with each holder/servicer?
3. How many loans are at each location?
4. What is the total dollar value?
5. If loans are still at original lender, what are their future plans for your loans? Will they be sold? If so, to what organization?
6. What are the account numbers for your loans at each holder/servicer?
7. Will they sell your loan portfolio to an organization of your choice?
8. Will they buy other portfolios from other organizations?

Make sure to always log your calls, time, name of person and issue discussed. Print a hard copy of your information from the website.