

good credit

Most students today must borrow money to help finance their undergraduate and graduate studies. Some loan programs are federally sponsored while others are provided by banks and other private lenders. Whatever the source of funds, your student loans must always be repaid. You should bear in mind that the student loan(s) you are now applying for will become part of your credit history and will also affect your credit score. Although it is often a concern for student borrowers, having multiple education loans and/or a significant amount of education debt does not necessarily mean you will have a poor credit score. People with small or large amounts of education debt can score well, provided they have managed their credit properly. Education loans are a good way for you to establish a positive credit history by making timely payments. Conversely, failure to meet repayment obligations will have a negative impact on your credit history and financial future.

Credit reviews are required for virtually all consumer lending, so maintaining a good credit history on education loans is important, since it may affect your ability to obtain a mortgage, a car loan, or a credit card.

Education Loans from Private Sources

To be eligible for education loans from private sources, applicants must demonstrate that they have managed debt responsibly. Unlike most federally sponsored loans that have either no credit requirements or minimal credit criteria, private lenders carefully review credit history to determine eligibility for their loan programs.

Your Credit History and Credit Report

Individuals establish their credit history by borrowing money or charging retail purchases. Typically, anyone who has ever used a credit card issued in his or her own name has established a personal credit history. Financial institutions and major retail stores report their cus-

tomers' credit information to national credit bureaus that, in turn, compile the information in the form of a credit report. A credit report is simply a record of every credit card, retail account, student and personal loan, and other credit accounts made or established in your name.

Whenever you apply for a loan, your credit report will most likely be reviewed. In reviewing your credit report, the lender is trying to determine your ability and willingness to pay based on your payment history. A good credit record indicates that you are likely to repay the loan for which you are currently applying.

Credit Scoring

Today most lenders may use a credit score to determine eligibility for a loan. This is a numerical score based on a statistical analysis of the data contained in a credit report. Lenders that use a credit score typically require applicants to meet a minimum score in order to qualify for their loan program.

Checking Your Credit

For your own protection, you should request a copy of your credit report from a local and/or national credit bureau and review it carefully. Contact the reporting credit bureau and creditor(s) immediately if you discover any inaccuracies.

Credit Bureaus

The three major national credit bureaus are Equifax (800-685-1111 or www.equifax.com), Experian (formerly TRW, 888-397-3742 or www.experian.com), and TransUnion (800-888-4213 or www.transunion.com). There are also hundreds of smaller local credit reporting agencies. Telephone numbers for the agencies in your area are located in the Yellow Pages of your phone directory under the listing "Credit Reporting Agencies."

Delinquency and Default

Delinquency occurs when a borrower is late with a payment. Default occurs when a borrower fails to make a scheduled payment or meet other terms of the loan agreement and the lender finds it reasonable to conclude that the borrower no longer intends to honor the obligation to repay.

If you default on your federal student loan(s), one or more of the following consequences may occur:

- The lender/holder of your loan may declare the entire unpaid balance, including interest, immediately due and payable.
- You could be required to pay all charges and other costs permitted by law (including reasonable attorney's fees) for the collection of your loan.
- The lender/holder of the loan may assign the promissory note to a guaranty agency, at which time all amounts due will be payable to the guaranty agency.
- The lender/holder or guaranty agency may report the default to one or all three national, authorized credit bureaus.
- The lender/holder and/or the government may take legal action against you.
- The lender/holder or guaranty agency may report the default to your school.
- You may be unable to receive assistance from federal student aid programs.
- You may become ineligible for various repayment options, deferments, and other benefits.
- Your wages may be subject to garnishment.

- State and federal income tax refunds may be subject to IRS offset and withheld by the federal government.
- Your professional licenses may not be granted or renewed.

Similar consequences may occur if you default on a student loan from a private source.

Forbearance

Forbearance means that the lender may agree to allow you to stop making payments temporarily, to make smaller payments than were previously scheduled, or to extend the time allowed to pay off the loan. If you realize that you may have trouble making loan payments, you should immediately communicate with the lender to explain your circumstances and ask for forbearance.

Bankruptcy

Because people today are declaring bankruptcy in record numbers, you may believe that your final option is to declare bankruptcy. But, by law, education loans are defined differently from consumer debt: they are not discharged by bankruptcy proceedings. This means that even if you declare bankruptcy and are released from other loan obligations, you still must repay your educational loans in full.

Conclusion

Education loans—federal and private—are an important source of funding to help you complete your education. It is up to you to borrow wisely and to understand the terms of your loans and your repayment obligations.