

By: Mia Taylor - December 29, 2017

The student loan forgiveness process can be murky at best.

Which loans are eligible for forgiveness—federal loans or private loans? And when are they eligible? Should you hire a lawyer to help you with the process of reducing or eliminating your student debt? Can all of your debt be forgiven or just some of it?

These are just a few of the questions faced by those who have mountains of student debt. And just to complicate matters further, there's a lot of myths and misinformation out there about student debt forgiveness.

To help clear things up, we asked financial experts to walk us through the student loan forgiveness process—and answer some of the most common questions student loan holders have.

What Kind of Loan Do I Have?

When it comes to student loan forgiveness, the first challenge is often determining the source of your loan. It's not unusual for people to be unsure about whether they have private loans, federal loans, or some combination of both.

Michelle Waymire, a financial advisor and founder of Young + Scrappy, has some advice for people in this situation: analyze your records.

"Most people need to go back and figure out what type of loans they have because a lot of people don't know the difference," she says. "And it isn't necessarily easy to find out because loan servicing companies don't have a lot of incentive to help you figure out how to get your loan forgiven."

The easiest place to start is the National Student Loan Data System, which is a database of all federal student loans. This is where you can obtain a list of all the federal student loans you may have, Waymire explains.

If your loans aren't listed here, they are likely private loans and not federal ones. If you're seeking loan forgiveness, you should know that according to the experts, the overwhelming majority of student loan forgiveness applies to federal loans.

How Can My Credit Report Help?

After exploring the National Student Loan Data System, the next step is to pull your credit report, says Waymire.

This will allow you to identify any private student loans you may hold. Many sites or services will charge you for a credit report, but you can obtain a free credit report at Credit.com.

Does My Job Make a Difference?

There are two main approaches to loan forgiveness, depending on whether you're employed in the private or public sector.

As a private sector worker, the road to loan forgiveness is longer and harder. You'll need to make at least two decades of on-time payments through an income-driven repayment plan before you're eligible for forgiveness of the remaining debt. However, according to Waymire, "if you still have anything you owe at the end of that period, the balance is forgiven."

So if you work in the private sector, and you eventually want to apply for loan forgiveness, an income-driven repayment plan is the first step.

What Is Income-Driven Repayment?

There are four types of income-driven repayment plans offered by the federal government. Each is designed to offer some student loan relief during the repayment process.

These include the Revised Pay as You Earn Repayment Plan (REPAYE Plan); the Pay as You Earn Repayment Plan (PAYE Plan); the Income-Based Repayment Plan (IBR Plan); and finally, the Income-Contingent Repayment Plan (ICR Plan).

"Each of these has different characteristics and time horizons for forgiveness," Waymire explains, but the bottom line is that all of these plans are designed to help those with federal loans whose payments are too high compared to their income. Most federal student loans are eligible for one of the four plans.

Am I Eligible for Income-Driven Repayment?

It's also important to note that once you've participated in an income-based repayment plan for two decades or more, and you can apply for forgiveness, there are no restrictions on the type of job you hold in order to qualify for relief of the remaining debt.

Those wishing to apply for an income-driven repayment plan must complete an application with the Federal Student Aid office of US Department of Education.

Am I Eligible for the Public Service Loan Forgiveness Program (PSLF)?

Public Service Loan Forgiveness is designed for public service workers, or those who work for government organizations at any level (federal, state, or local), as well as those working for 501(c)(3) non-profit organizations. Those employed in the public sector can qualify for the Public Service Loan Forgiveness Program.

However, for your payments to qualify, you must meet certain conditions. This often involves the following:

- Making payments in an income-driven repayment plan (ICR, IBR, PAYE, or REPAYE)
- Having only Federal Direct Loans —Perkins loans obtained through your school and older FFEL loans do not qualify.
- Working full time at a paying job for either the government or a nonprofit

How Can the PSLF Program Help Me?

The advantage of the PSLF program is that with it, loan forgiveness takes far less time for public service workers than it does for private sector workers. In fact, according to Waymire, "You just have to repeat the qualifying payments 120 times, but they don't have to be consecutive."

In other words, if for some reason you lose your qualifying government or nonprofit job and eventually you find another qualifying position, the gap in acceptable employment will not count against you. The key is to reach 120 payments total while working at any qualifying job, whether it is one consistent position or various ones throughout the course of your career.

What Kind of Payments Qualify for PSLF?

To get credit for qualifying payments, you must submit documents annually to the Department of Education verifying your income, family size, and employment, says Waymire.

If you want to qualify for this program now or in the future, you must submit an employment certification form as soon as possible. Too often, people wait to complete this form, only to learn the payments they've been making on their loans were not qualifying payments.

Qualifying payments, for example, must be on time (or no later than 15 days after the due date) and must be for the full amount shown on the monthly bill, not a percentage or portion of the total. In addition, payments made while your loan is in a grace period, deferment, or forbearance will not count as qualifying.

What Are My Options for Private Student Loan Forgiveness?

If you have private student loans, not federal student loans, then your options are more limited. But according to Joe DePaulo, CEO and co-founder of College Ave Student Loans, "some private loans do include forgiveness," such as "if the student borrower dies or suffers a permanent disability after taking on the loan."

However, he adds, complete forgiveness isn't the only answer for those struggling with repayment. If you're having difficulty repaying your loans, don't ignore the problem or assume there are no options. Instead, DePaulo suggests reaching out to loan servicers to discuss your situation and develop a plan to get back on track.

Should I Get a Lawyer?

Unfortunately, most experts agree that an attorney can do little to help with the federal student loan forgiveness process.

"If it's a federal loan, a lawyer might be able to help you understand the process," says Galen Bargerstock, founder of Government & Civil Employee Services, "but they're not going to be able to negotiate with federal government."

Are Refinanced and Consolidated Loans Eligible for Forgiveness?

Another perplexing hurdle student loan holders often face is the lingering effect of consolidation and refinancing.

If you've consolidated student loans in the past, you may not be eligible for loan forgiveness in the future, but it depends on exactly what you consolidated and refinanced and with whom. Those who have refinanced student loans with a private lender, and in the process consolidated or bundled both federal and private loans, lose the ability to later seek forgiveness of the federal loans or even income-driven repayment plans.

Waymire says that "for this reason, it's best to only refinance if you have high interest rates or you aren't otherwise eligible for the benefits that federal loans provide."

Can I Be Taxed on My Forgiven Loans?

If your student loans are successfully forgiven, be aware that your eliminated debt is typically considered taxable income—meaning you'll owe more in taxes than you otherwise would.

"For example, if your salary is \$45,000 per year and you get \$35,000 in student loans forgiven, then you're required to pay income tax on \$80,000 rather than on your usual salary," explains Waymire. "Many people don't see this coming, aren't prepared, and end up in debt with the IRS."

The one caveat here is that for public employee student loan forgiveness, the eliminated debt is not considered income by the IRS, so it will not be taxed.

The big takeaway? If you're planning on seeking student loan forgiveness, and you're a private sector worker, it's worth it to hire a tax professional who can conduct a financial analysis to determine how much money you should set aside for the eventual tax bill.

What Are My Next Steps?

If you're feeling overwhelmed with your student loans, and you're interested in student loan forgiveness, you can get started with a free credit report at Credit.com. You can also find more information on student loan forgiveness, including how loan forgiveness may impact your credit score, and some other loan forgiveness programs you may not know about.



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