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Discharging Student Loan Debt

While most students need to take out loans in order to afford college, education-related debt can often take a long time to pay off and requires careful planning. An unexpected cancer diagnosis could make it difficult to repay some of these loans, but there is a program that may be able to help.

If you borrowed certain types of federal loans to attend college or graduate school and you have a total and permanent disability, you may qualify to have your loans forgiven (discharged) so you do not have to pay them back. The federal government has a program called Total and Permanent Disability Discharge (TPD) and it applies to: William D. Ford Federal Direct Loans (Direct Loans); Federal Family Education Loans (FFEL); and/or Federal Perkins Loans (Perkins Loans). The program also applies to individuals who have to complete a TEACH grant service obligation.

How do I find out if I qualify for a TPD?

Before these loans can be discharged, you must fill out an application and provide information to the U.S. Department of Education to show you are totally and permanently disabled. There are different ways you can show you are totally and permanently disabled. It will depend on whether you are a veteran, are receiving Social Security benefits (such as SSDI or SSI), or if you have a long-term disability that prevents you from working. For specifics on how to show your disability, visit the TPD Discharge website at www.disabilitydischarge.com and click on *Application Process* to check what else is required. You can also contact the Nelnet Total and Permanent Disability Servicer (servicer) at (888) 303-7818.

What about Private Loans I borrowed for college?

The TPD discharge *only* applies to federal loans that you borrowed for college. Private student loans borrowed from a bank or other financial institution are not eligible for the TPD discharge program. Private loans are not subsidized or regulated by the federal government and do not have the same types of discharge, deferment, or forbearance options that are available for federal loans. If you are unable to pay a private loan, it is best to contact the private lender and find out if you can negotiate some of the debt or come up with an alternative repayment plan. See the CLRC handout about *Managing the Cost of Cancer Care* for further information.

What happens if my TPD discharge request is approved?

If your TPD discharge request is approved, you will be notified by Nelnet. Any loan payments you made on or after you became totally and permanently disabled will be returned to you and your loans will then be discharged. Depending on how you showed your disability, you may also be subject to a 3-year monitoring period that begins from your TPD discharge date. If this applies to you, you will have to meet certain requirements to keep your loans discharged.

Once your loans are discharged, the amount of debt that is forgiven gets reported to the IRS as taxable income for that year (in addition to any other taxable income you may have). This applies to any discharged loan of \$600 or more in a given year. If you are unable to pay the IRS the amount owed, you can contact the IRS and ask if they can negotiate a repayment plan with you. Although the IRS is not required to negotiate, there may be options available for individuals who cannot pay the full amount owed after a TPD discharge. The IRS has an insolvency exception that applies to taxpayers who receive a TPD discharge. A taxpayer is considered insolvent when the amount of taxes he or she is responsible for is much greater than the amount of assets that he or she has. As a result, the discharged debt is not considered income for the taxpayer and he or she does not have to pay taxes on the amount. To apply for the insolvency exception, you must fill out IRS Form 982 when you file your taxes the year after your loans have been discharged.

What happens if I have to pay back my loans again (reinstatement)?

If your loans are reinstated before your 3-year monitoring period is over, you will again be responsible for repaying your loans or completing your TEACH Grant service obligation. However, you will not have to pay interest that would have built up on your loans during the time they were discharged.

What happens if my TPD discharge request is denied?

If your application is denied, you will be notified of the reasons for the decision. Your notification letter will include information about how to request a re-evaluation of your application. You will have to continue making payments towards your loans in the meantime.

For more information, please contact:

U.S. Department of Education

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www.disabilitydischarge.com

Student Loan Borrower Assistance

A Project of the National Consumer Law Center
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