

APPENDIX A

IMPORTANT INFORMATION ABOUT REFINANCING FEDERAL LOANS

You are eligible to refinance both private student loans and Federal loans with this refinance loan. If any of the loans that you are refinancing are Federal loans, you should be aware of the following important facts about how refinancing may affect your rights.

1. A Federal loan is made according to rules set by the U.S. Department of Education. Federal loans have fixed interest rates, meaning that the interest rate on a Federal loan will never go up or down.
2. Federal loans also permit borrowers in financial trouble to use certain options, such as income-based repayment, which may help some borrowers. Depending on the type of loan that you have, the government may discharge your loan if you perish or become permanently disabled. This is known as *Loan Forgiveness*. Other benefits that postpone payment in hardship, like *deferment* and *forbearance* may also be lost.
3. *Partial loan forgiveness* may be granted in exchange for performing certain types of public service. If you are an active-duty service member and you obtained your Federal loan before you were called to active duty, you are entitled to interest rate and repayment benefits for your loan. This is commonly known as the *Servicemembers Civil Relief Act* (formerly called the *Soldiers' and Sailors' Civil Relief Act*)
4. If you are unable to pay your Federal loan, the government can refer your loan to a collection agency or sue you for the unpaid amount. In addition, the government has special powers to collect the loan, such as taking your tax refund and applying it to your loan balance.
5. A private student loan is not a Federal loan and is not regulated by the Department of Education. A private student loan is instead regulated like other consumer loans under both state and federal law and by the terms of the promissory note with your lender.
6. If you refinance your Federal loan, your new lender will use the proceeds of your new loan to pay off your Federal loan. Private student loan lenders do not have to honor any of the benefits that apply to Federal loans. Because your Federal loan will be gone after refinancing, you will lose any benefits that apply to that loan. If you are an active-duty service member, your new loan will not be eligible for service member benefits.

7. Your private student loan may have either a fixed or variable interest rate. If your private student loan has a fixed interest rate, it may be less than the rate of your Federal loan and it will never change. If your private student loan has a variable interest rate, that rate may currently be less than the rate of your Federal loan, although the interest rate may go up or down in the future. With either fixed rate loan or a variable rate loan, if the interest rate on the new private student loan is less than the interest rate on your Federal loan, your payments will be less if you refinance.
8. If you are a borrower with a secure job, emergency savings, a strong credit score, and are unlikely to need any of the options available to distressed borrowers of Federal loans, a refinance of your Federal loans into a private student loan may be attractive to you. You should consider the costs and benefits of refinancing carefully before you refinance.
9. Remember also that, like Federal loans, most private loans cannot be discharged if you file bankruptcy unless you can demonstrate that repayment of the loan would cause you an undue hardship. In most bankruptcy courts, proving undue hardship is very difficult for most borrowers.