Federal loans: The smart way to borrow

If you don't receive enough free money to pay for college and you aren't able to cover your costs with savings or other resources, consider federal student loans. Your interest rate will be low, and you'll usually have up to 10 years to repay, along with other benefits. You can get a federal loan even if you don't have financial need, and there's no credit check. There are also federal loans for parents.

Many lenders offer private loans if you've reached the federal loan borrowing limits, but keep in mind private loans usually have higher interest rates and fewer benefits. If you need to borrow, you should always exhaust federal loans first.

Federal Stafford Loans

Federal Stafford loans are the most common loans and are for students with or without financial need at all types of colleges. To receive federal Stafford loan funds, you must be enrolled at least half time (as determined by your college). There are two kinds of Stafford loans.

Subsidized Stafford Loans

Based solely on financial need. The federal government pays the interest while you're in college and during the six-month grace period after you graduate, leave school or enroll less than half time—you'll make no loan payments until your grace period ends. To qualify, you must meet all the requirements for federal aid (see page 1).

Unsubsidized Stafford Loans

For all eligible students, regardless of income or assets. You must meet the requirements for federal aid (see page 1), except for demonstrating financial need. You're responsible for paying all the interest on your loan, but you can defer interest payments while in school at least half time. If you do, when repayment begins the interest will be added to the amount you borrowed and future interest costs will be based on the higher loan amount. It's to your advantage to pay the interest while you're in college because you'll pay less interest in the long run.

If you're an independent student, you may be eligible to receive additional unsubsidized Stafford loans to help cover unmet financial need or replace some of your EFC.

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Whether you receive your federal loan directly from the federal government under the William D. Ford Federal Direct Loan Program or from a lender under the Federal Family Education Loan Program will depend on which program your school participates in. The information here applies to loans under both programs.

A Closer Look at Stafford Loans	
How to apply	First submit the FAFSA; your college's financial aid office will contact you later to sign a master promissory note and complete loan counseling
Interest rate	Fixed at 6.8 percent for the life of the loan (*Starting July 1, 2008, the interest rate for new **subsidized** loans taken out for undergraduate study will gradually drop until 2012 when the rate returns to 6.8 percent)*
Fees	Origination or federal default fees of up to 1 percent may be deducted from each loan disbursement
Enrollment requirement	At least half time
How you'll receive loan funds	Funds are sent directly to your college to pay for tuition, fees, room and board (if applicable); the remainder will be issued to you by your college
Repayment begins	Six months after you graduate, leave school or enroll less than half time

Federal Stafford Loan Limits

Year	Dependent Undergraduates*	Independent Undergraduates	Graduate and Professional Students
First year	$5,500	$9,500	$20,500—no more than $8,500 may be in subsidized loans
	No more than $3,500 may be in subsidized loans		
Second year	$6,500	$10,500	
	No more than $4,500 may be in subsidized loans		
Third and beyond (each year)	$7,500	$12,500	
	No more than $5,500 may be in subsidized loans		
Teacher certification	$5,500	$12,500—no more than $5,500 may be in subsidized loans	
Total amount you can borrow	$31,000	$57,500	
	No more than $23,000 may be in subsidized loans		$138,500**—no more than $65,500 may be in subsidized loans (includes any Stafford loans you received for undergraduate study)

** If you're a dependent student whose parents are unable to obtain a federal PLUS loan, you may be eligible to borrow the same amount in unsubsidized loans as an independent student.*

*** Graduate and professional students enrolled in certain approved health professions programs may borrow up to $224,000.*

What's accrued interest?

Let's say you borrow $10,000 via an unsubsidized Stafford loan and the interest costs on the loan are about $57 a month (that's at a fixed interest rate of 6.8 percent). You choose to defer paying the interest while you're in school for four years. The interest that accumulates is known as accrued interest. After four years, about $2,720 in interest will have accrued. When you begin repayment, you'll owe $12,720—the original $10,000 plus the $2,720 in accrued interest. The interest you'll repay will be based on this new higher amount. The process of adding interest to the amount borrowed rather than repaying it as it accrues is called "capitalization."

Federal Perkins Loans

Federal Perkins loans are low-interest loans for students with exceptional financial need. These loans are made by colleges, have 0 percent interest during school and there are no fees. You'll have up to nine months after leaving school before you must start repaying your loan at 5 percent interest.

Depending on when you apply, your financial need and available funds, you can borrow up to $5,500 for each year of undergraduate study and up to $8,000 a year if you're a graduate or professional student—and you can be enrolled less than half time. Funding is limited, however, and not all colleges offer federal Perkins loans.

How much can you borrow?

It depends on:

- your college's cost of attendance (COA),
- your expected family contribution (EFC),
- your year in school,
- whether you're a dependent or an independent student, and
- how much other financial aid you receive.

Your loan and any other financial aid you receive, including private aid, cannot be more than your college expenses. Visit **www.edfund.org/EdWise** to help calculate how much you can afford to borrow and repay.

Federal PLUS Loans

Federal PLUS loans enable your parents or stepparents (whose information is reported on your FAFSA) to borrow up to the total cost of your undergraduate study, minus any other aid you may receive (legal guardians cannot take out PLUS loans for your study).

Graduate or professional students can also apply for a federal PLUS loan and borrow up to the total cost of their education, minus any other aid they may receive (such as federal Stafford loans).

A Closer Look at PLUS Loans

	Federal PLUS Loans for Parents	Federal PLUS Loans for Graduate Students
How to apply	▪ You may need to complete the FAFSA ▪ Complete a PLUS loan master promissory note	▪ Complete the FAFSA ▪ Complete a PLUS loan master promissory note
Total amount you can borrow	▪ Up to the total cost of your child's undergraduate study, minus any other aid received	▪ Up to the total cost of your education, minus any other aid received
Interest rate	▪ Fixed at 7.9 percent or 8.5 percent, depending on the loan program and college ▪ Interest accrues from the date of disbursement until paid in full	
Fees	▪ Origination or federal default fees of up to 4 percent may be deducted from each loan disbursement	
Enrollment requirement	▪ At least half time in a program leading to a degree or certificate	
Other requirements	▪ Basic requirements for federal financial aid (see page 1)	▪ Basic requirements for federal financial aid (see page 1) ▪ Your eligibility for federal Stafford loans must first be determined
Credit eligibility requirements* (PLUS loans are not based on income or assets)	▪ No debts delinquent 90 days or more ▪ No defaulted loans, outstanding tax liens, unpaid judgments, bankruptcy, foreclosure or wage garnishment within the past five years	
Repayment begins	▪ Within 60 days of the loan's last disbursement. You can defer payments until your child ceases to be enrolled at least half time and during the six-month, post-enrollment period. Interest accrues during deferment.	▪ Within 60 days of the loan's last disbursement. You can postpone repayment while you're in school at least half time, and during the six-month, post-enrollment period. Interest accrues during deferment.

**If you or your parents cannot pass the credit check, you can still receive a PLUS loan if you know someone who can and is willing to co-sign your loan.*

Federal Loan Cancellation

In rare cases, your loan, or a portion of it, can be canceled—in other words, you won't have to pay it back. Your lender can cancel your loan if your college closes and you're unable to complete your studies; if your college falsely certified your eligibility for a loan; if your identity was stolen and used illegally to take out student loans; if your college failed to make a refund to your lender when one was due (you don't need to repay the amount kept by the college); or if you become totally and permanently disabled or die. To learn more, contact your lender.

Private loans

If you still need money for college after reaching the borrowing limits for federal loans, look into other options, starting with those listed on page 13.

Private loans, an additional option, often carry higher interest rates and fees than federal loans, and may have less attractive repayment terms. Typically, the interest rates on private loans are variable and can change from month to month. Private loans are usually based on your credit rating and income-to-debt ratio—not financial need—and may require a co-signer. The information in your credit report will determine the interest rates you qualify for.

A number of lenders offer private loans. Ask questions and compare lenders to make the choice that's best for you.

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If you withdraw from school, you may have to pay back some or all of the federal aid you received for the term. Contact your college's financial aid office and your academic advisor to understand the possible consequences before you decide to leave school.

Looking for a private loan? questions to ask

- What's the interest rate? Fixed or variable? If variable, how often will it be adjusted? When does interest capitalize and how often?
- Is there a maximum amount you can borrow?
- Is a co-signer required? Will having a co-signer lower the interest rate?
- Is there an application fee? Are there any disbursement fees? Any repayment fees?
- Is the loan check payable to you or your college? How long does it take to receive funds?
- Are there reduced interest rates for on-time payments?
- What will your minimum payment be? When does repayment begin? How long do you have to repay? Is there a prepayment penalty?
- Will you get one bill for all your private loans? Can your private loan bills be combined with your federal loan bills?
- Will your payments be deferred while you're in school? If so, will interest continue to accrue?
- What happens if you can't make your payments due to a job loss or other economic hardship? Do you have any deferment or forbearance options?

What does it mean to **accept** a loan?

Accepting the responsibility for repaying the money you borrow. It's worth noting that federal laws make it nearly impossible to discharge a student loan through bankruptcy, except in rare instances. Before you borrow, ask:

- **Is the college or program a good investment?**
  You have the right to be fully informed about the college's tuition and refund policies, academic and training programs, financial aid programs, faculty and facilities, and its graduates' success rate in finding jobs. You also have the right to ask how many students complete their degrees at the college and how many of them transfer out.

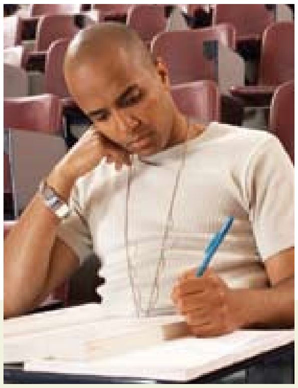
- **Does your loan make good financial sense?**
  Are there jobs in your chosen field and how well do they pay? Some jobs and careers are more stable or higher paying than others. Learn more about hundreds of jobs, including required training, prospects and earnings, in the federal *Occupational Outlook Handbook* available at **www.bls.gov/oco**.

- **Are there other options?**
  Cut costs or check out other ways to pay for college, starting with those listed on page 13.

- **What is the true cost of your loan?**
  It usually costs money to borrow money. Make sure you know the true cost of your loan by keeping track of how much you borrow and how much you owe, including interest costs and fees. If you don't make your payments on time, you may have to pay late fees and collection costs.

- **Can you repay it?**
  Before applying for a loan, determine how much you'll be able to afford to repay. Estimate how much money you'll need, what your monthly payments and other expenses will be, and what you can expect to earn after graduation. Borrow only what you need and can pay back. Also, keep in mind that the longer you take to pay off your loan, the more interest you'll pay over the life of your loan. Find loan repayment calculators and more at **www.edfund.org/EdWise**.

- **What are your rights and responsibilities?**
  When you accept a loan, you accept legal and financial obligations that last until the loan is repaid. You'll sign a promissory note, a legal contract between you and your lender in which you promise to repay the amount you borrow and agree to the loan's terms and conditions. Before signing, be sure you understand all of your rights and responsibilities.



Remember, even if you don't graduate, can't find a job or aren't happy with your education, you still must repay your loan.

Take this true/false quiz to find out how your loan savvy stacks up

1 I don't have to pay back my student loan if I can't find a job when I leave school. **T/F**

2 Before I leave school or drop below half-time enrollment, I must complete student loan exit counseling. **T/F**

3 I must notify my lender or current loan holder within 10 days if I drop below half-time status, withdraw from school or transfer to another institution. **T/F**

4 After leaving school, I am required to make monthly payments on my loan during periods of grace, forbearance or deferment. **T/F**

5 I have the right to receive a disclosure statement that includes interest rates, fees, loan balance, and size and number of payments—before the loan repayment term begins. **T/F**

6 My rights do not include the freedom to prepay all or part of my loans without any prepayment penalty. **T/F**

7 I will be issued a deferment (a temporary postponement of my loan payments) if I am eligible for it, apply for it and receive verification of acceptance. **T/F**

8 If I ever have trouble making my student loan payments, I should first call my lender. **T/F**

9 A master promissory note (MPN) is a legal document that reflects my promise to repay my student loan. **T/F**

10 I do not need to complete a new MPN if I change lenders. **T/F**

Answers: 1: F 2: T 3: T 4: F 5: T 6: F 7: T 8: T 9: T 10: F

Repaying federal student loans

When it comes time to pay back your federal student loans, there are five repayment options, including payments that stay the same each month (standard), payments that rise gradually (graduated), payments that are linked to your income (income-sensitive; income-based) and payments that stretch over a longer period of time (extended).

You'll usually have up to 10 years to repay your loan, but you could have as long as 25 years, depending on your loan amount and repayment plan. To learn more, visit **www.edfund.org/EdWise**, **www.federalstudentaid.ed.gov** or **www.edfund.org/Repayment**, or talk to your lender.

Borrow conservatively, budget wisely and plan ahead. Knowing the monthly payments for the amount you borrow is a great start.

Repay Your Loan

Interest Rate		6.80%		8.50%	
Total Amount Borrowed	**No. of Payments**	**Payment**	**Total Interest**	**Payment**	**Total Interest**
$5,500	120	$63	$2,095	$68	$2,683
$12,000	120	$138	$4,572	$149	$5,854
$19,500	120	$224	$7,429	$242	$9,513
$27,500	120	$316	$10,477	$341	$13,415
$31,000	120	$357	$11,810	$384	$15,123
$35,000	120	$403	$13,334	$434	$17,074
$45,000	120	$518	$17,143	$558	$21,953
$57,500	120	$662	$21,905	$713	$28,050
$60,000	120	$690	$22,858	$744	$29,269
$138,500	120	$1,594	$52,764	$1,717	$67,564

Making repayment **easier**

Pay as you go. Deferring interest payments on your loan may be attractive in the short run, but you'll pay a lot more in the long run. By paying as little as $20 each month during school, you can save hundreds of dollars over the life of your loans.

Sign up to have your loan payments taken directly from your bank account. Lenders may lower your interest rate if you make automatic payments and always pay on time.

See if loan consolidation makes sense. If you have several federal student loans, you may want to ask your lender about consolidating them into a single new loan with a new interest rate and an extended repayment term of up to 30 years. Loan consolidation isn't right for everyone.

Let your lender know if you can't make your payments. If you fall behind, your delinquency will likely be reported to a national credit reporting agency, which could damage your credit rating, making it harder and more expensive if you want to get a loan for a car, home or other major purchase. Ask your lender about changing your repayment plan, consolidating or combining your loans; or look into a deferment or a forbearance to temporarily postpone, reduce or extend your payments.

Don't default. If you don't repay your loan, you'll face serious consequences:

- You'll lose the privilege of making monthly payments; the entire amount of your loan will become due.
- You'll no longer be eligible to receive additional federal financial aid (grants or loans).
- A portion of your paycheck or tax refund can be taken to pay back your loan.
- You can be hit with collection costs.
- You may not be eligible for certain government jobs.
- You'll damage your credit rating, making it harder and more expensive to borrow money in the future.

Calculating your payments

Once your federal student loans go into repayment (after you graduate or drop below half-time enrollment), you will have several options for repaying them.

Standard

The standard plan allows you to pay the same amount each month, with up to 10 years to repay. Your monthly payment must be at least $50. Example: 6.8 percent interest for 10 years ➞ $11.51 per $1,000 borrowed.

Graduated

Your payments start out low (as little as interest only) and gradually increase over time, with up to 10 years to repay. Example: 6.8 percent interest for 10 years ➞ $5.67 per $1,000 borrowed for first two years, then $13.53 per $1,000 for remaining eight years.

Extended

This plan is for outstanding student loan debt greater than $30,000. Payments can be fixed or may gradually increase over time, with up to 25 years to repay. Example: 6.8 percent interest for 25 years ➞ $6.94 per $1,000 borrowed.

Income-Sensitive

As agreed upon by you and your lender, your loan payment will be based on a percentage of your gross monthly income—between 4 and 25 percent. The resulting payment must at least cover the interest due each month and the payment term cannot exceed 15 years.

Each year, as your income increases or decreases, so do your payments.

Example: 6.8 percent interest ➞ $5.67 per $1,000 borrowed for first year, rising to $11.51 per $1,000 for remaining 10 years.

Income-Based

(available starting July 1, 2009)

Payments are 15 percent of your discretionary income (your taxable income minus 150 percent of the poverty level). Payments can be as low as $0 and unpaid interest may be subsidized by the federal government for up to three years. After 25 years of qualifying payments, any remaining balance will be forgiven and considered taxable income. To determine your monthly payment, visit **www.edfund.org/calculators/IBR**.