



Entrance

COUNSELING GUIDE

FOR DIRECT LOAN BORROWERS



Federal Student Aid

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U.S. Department of Education

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Welcome to Entrance Counseling

Entrance counseling is a requirement if you're borrowing for the first time under the William D. Ford Federal Direct Loan (Direct Loan) Program and have not previously received a loan through the Federal Family Education Loan (FFEL) Program. In fact, you must complete entrance counseling before you can receive the proceeds of your first Direct Loan.

Fulfilling the entrance counseling requirement

Entrance counseling can be completed on paper or via the Web. Check with your school about how it expects you to fulfill the requirement.

You should have on hand the following information for entrance counseling:

- ▶ The tuition, fees, and other charges from your school. You can find this information on your student account at your school. Your school's student accounts office (often called the bursar's office) can provide you with a paper copy of your student account or tell you how to view it online.
- ▶ The letter you may have received from your school's financial aid office informing you of the financial aid it is offering you (often called an award letter).
- ▶ Your school's estimate of the cost of your education for the year (available from your school's financial aid office; it might have been included in your award letter).

About This Guide

The *Entrance Counseling Guide for Direct Loan Borrowers* provides an overview of the Direct Loan Program, including information you'll need to successfully repay the loans that you'll be receiving to help pay for your college costs. For more detailed information about any of the topics covered, see your Master Promissory Note (MPN) or your copy of the Borrower's Rights and Responsibilities Statement. You can find this statement at

www2.ed.gov/offices/OSFAP/DirectLoan/pubs/dlrights.pdf.

Throughout this guide, the words *we*, *us*, and *our* refer to the U.S. Department of Education. You will also frequently encounter the words *loan holder*, *loan servicer*, and *Master Promissory Note*. To assist you, we provide the definitions for those and other terms here and within the text. You can find an expanded glossary of terms at

StudentLoans.gov/myDirectLoan/glossary.action.

Terms Used in This Guide

Acceleration—Demand for immediate repayment of your entire Direct Loan. This can happen if you default on your Direct Loan. In addition, the entire unpaid amount of your Direct Loan becomes due and payable if your eligibility for the loan was established by your making a false statement.

Aggregate Loan Limit—A limit on the total amount of Direct Subsidized Loans and/or Direct Unsubsidized Loans that you may borrow for undergraduate and graduate study. If the total amount you receive over the course of your education reaches the aggregate loan limit, you will not be eligible to receive additional loans. However, if you repay some of your loans to bring your outstanding loan debt below the aggregate loan limit, you could then borrow again, up to the amount of your remaining eligibility under the aggregate loan limit.

Annual Percentage Rate (APR)—The actual yearly cost of borrowing money reflected as a percentage rate.

Capitalized Interest (Capitalization)—Unpaid interest that has been added to the principal balance of a federal student loan. Future interest is charged on the increased principal balance, and this may increase the amount of your monthly payment and the total amount you repay over the life of the federal student loan.

Federal Student Loan—In this guide, loans made under the Federal Perkins Loan Program, the Federal Direct Loan Program, and the Federal Family Education Loan (FFEL) Program.

Interest—The cost of borrowing money. Interest is calculated as a percentage of the outstanding (unpaid) principal balance.

Loan Discharge (Cancellation)—The forgiveness of a loan debt under certain circumstances.

Loan Forgiveness—The cancellation of a loan debt under various loan forgiveness programs.

Loan Holder—The U.S. Department of Education is your loan holder. Your loan servicer will be different than your loan holder (see below).

Loan Servicer—An entity that collects payments on loans, responds to customer service inquiries, and performs other administrative tasks associated with maintaining a loan (e.g., processing requests for a change in repayment plans). A federal loan servicer is a loan servicer for the U.S. Department of Education. Each Direct Loan is

assigned to a federal loan servicer. A current listing of loan servicers for federally held loans made through the Direct Loan Program can be found at StudentAid.gov/repay-loans/understand/servicers.

Principal—The loan amount you borrow plus any capitalized interest.

Promissory Note—A legally binding agreement that contains the terms and conditions of the loans made under the note. Most federal student loans are made under a Master Promissory Note (MPN).

Master Promissory Note

An MPN is a binding legal document that you must sign before receiving your first Direct Loan. The same MPN can be used to make one or more loans for one or more academic years (up to 10 years). Therefore, if you leave school and return, you may be able to receive additional loans without signing a new MPN. An MPN lists the terms and conditions under which you agree to repay the loan and explains your rights and responsibilities as a borrower. It's important to read your MPN and keep it in a safe place because you'll need to refer to it later when you begin repaying your loan or at other times when you need information about provisions of the



Remember!

For each federal student loan that you receive under an MPN, you'll receive a disclosure statement that provides specific information about that loan, including the loan amount, loan fees, and the expected disbursement dates and amounts. Other disclosures will be provided to you throughout the loan process.

loan, such as deferment or forbearance.

The Direct Loan Program

The U.S. Department of Education provides loans through the Direct Loan Program to eligible students at participating schools to help them pay for education after high school. Direct Loans include the following: Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans. You repay your Direct Loan to the U.S. Department of Education.



Warning!

Your federal student loan immediately becomes due and payable if your eligibility for the loan was established by making a false statement.

Types of Direct Loans

You may receive more than one type of loan under the Direct Loan Program. Each loan type has its own terms and conditions, such as interest rates.

Types of Direct Loans (Excludes Direct Consolidation Loans)			
	Direct Subsidized Loans	Direct Unsubsidized Loans	Direct PLUS Loans
Who may receive this loan?	Undergraduate students with financial need	All students	Graduate or professional students, and parents of dependent undergraduate students
What is the interest rate on loans first disbursed after 7/1/2013 and before 7/1/2014? ¹	3.86%	Undergraduates: 3.86% Graduate & Professional Students: 5.41%	6.41%
When does the government pay my interest?	While you are enrolled at least half-time In some cases, for 6 months after you leave school or drop below half-time enrollment Deferment periods Certain periods of repayment under the Income-Based Repayment and Pay As You Earn Repayment plans	You pay all interest charged over the course of your loan term.	You pay all interest charged over the course of your loan term.
When must I begin making payments?	6 months after you leave school or drop below half-time enrollment	6 months after you leave school or drop below half-time enrollment	6 months after you leave school or drop below half-time enrollment

¹ The interest rate is fixed.



Important

Except for Direct Consolidation Loans, Direct Loan interest rates are set each year in June for the upcoming award year. Each loan type has a maximum interest rate cap. The interest rate, once set for a loan, will apply for the life of the loan. In other words, the loans will remain fixed rate loans. **Thus, it is likely that many borrowers will have a set of fixed rate loans, each with a different interest rate.**



Direct PLUS Loans and Eligibility for Other Financial Aid

Accepting a Direct PLUS Loan can affect your eligibility for other financial aid. Therefore, we suggest that you contact your school's financial aid office to inquire about your eligibility for grants, work-study funds, Direct Subsidized Loans, Direct Unsubsidized Loans, and other forms of federal, state and private student aid that do not have to be repaid before accepting a Direct PLUS Loan.

Loan Limits in the Direct Loan Program

Annual loan limits in the Direct Loan Program vary depending on the borrower's academic year and whether the borrower is a dependent or independent student.

Subsidized and Unsubsidized Loan Limits

For Direct Subsidized Loans and Direct Unsubsidized Loans, there are limits on the maximum amount you may borrow for an academic year (annual loan limits) and the maximum amount you may borrow in total for undergraduate and graduate study (aggregate loan limits).

The actual loan amount you are eligible to receive is determined by your school and is based on your academic level, whether you are dependent or independent, and other factors such as

- ▶ the length of your program,
- ▶ your cost of attendance,
- ▶ your Expected Family Contribution (EFC),
- ▶ other financial aid you receive, and
- ▶ your remaining eligibility under the annual and aggregate loan limits.

If you're an undergraduate student, your annual loan limit will include both any Direct Subsidized Loans and Direct Unsubsidized Loans you receive for the same academic year period.

Direct PLUS Loan Limits

Direct PLUS Loans don't have fixed limits. You can borrow up to the cost of attendance at the school you're attending, minus all other financial assistance you receive. Your school will determine the actual Direct PLUS Loan amount that you are eligible to receive.



Remember!

If you're a graduate or professional student, use Direct Unsubsidized Loans first, then use Direct PLUS Loans if needed. Direct Unsubsidized Loans offer the following advantages over Direct PLUS Loans:

- Lower interest rates
- Lower fees



Credit Checks and Direct PLUS Loans

Direct PLUS Loans are the only Direct Loans that require a credit check. A credit check will be conducted to determine your credit history. If you have an adverse credit history, you may still receive a Direct PLUS Loan if you obtain an endorser or if you document to the U.S. Department of Education's satisfaction that there are extenuating circumstances related to your adverse credit history. An endorser is someone who does not have an adverse credit history and who agrees to repay the federal student loan if you do not.

Loan Limits in the Direct Loan Program

Academic Year	Dependent Students (except students whose parents are unable to obtain PLUS Loans)	Independent Students (and dependent undergraduate students whose parents are unable to obtain PLUS Loans)
First-Year Undergraduate Annual Loan Limit	\$5,500—No more than \$3,500 of this amount may be in subsidized loans.	\$9,500—No more than \$3,500 of this amount may be in subsidized loans.
Second-Year Undergraduate Annual Loan Limit	\$6,500—No more than \$4,500 of this amount may be in subsidized loans.	\$10,500—No more than \$4,500 of this amount may be in subsidized loans.
Third Year and Beyond Undergraduate Annual Loan Limit	\$7,500 per year—No more than \$5,500 of this amount may be in subsidized loans.	\$12,500—No more than \$5,500 of this amount may be in subsidized loans.
Graduate or Professional Student ¹ Annual Loan Limit	Not applicable	\$20,500 (unsubsidized loans only)
Subsidized and Unsubsidized Aggregate Loan Limit	\$31,000—No more than \$23,000 of this amount may be in subsidized loans.	\$57,500 for undergraduates—No more than \$23,000 of this amount may be in subsidized loans. \$138,500 for graduate or professional students—No more than \$65,500 of this amount may be in subsidized loans. The graduate aggregate limit includes all federal loans received for undergraduate study.

¹All students enrolled in graduate and professional degree programs are considered independent.

Half-Time Enrollment Requirement

You must maintain half-time enrollment to receive Direct Loans and maintain in-school status as a federal student loan borrower. For Direct Unsubsidized Loans and Direct Subsidized Loans, if you drop below half-time enrollment, you lose your in-school status and the grace period begins (see box on page 15). Your first payment is due at the end of the six-month grace period.

For undergraduate students, federal regulations set the following minimum standards for half-time enrollment:

- ▶ Schools that measure academic progress in credit hours and use semesters, trimesters, or quarters, half-time is at least 6 semester hours or quarter hours per term.
- ▶ Schools that measure academic progress in credit hours but do not use terms, half-time is at least 12 semester hours or 18 quarter hours per academic year.
- ▶ Schools that measure academic progress in clock hours, half-time is at least 12 clock hours per week.

Schools that measure academic progress in credit hours and use terms other than semesters, trimesters, or quarters determine the minimum number of credit hours for half-time enrollment based on the number of weeks of instructional time in the term, the number of weeks of instructional time in the program of study's academic year, and the number of credit hours in the program's academic year.

Schools may choose to define half-time enrollment based on a higher number of credit or clock hours than the minimum standards shown above, and a school's half-time enrollment standard may be different for summer sessions, for example. Your school can tell you if its definition of half-time enrollment is different from these minimum standards.

These minimum standards apply only to undergraduate students. If you are a graduate or professional student, the definition of half-time enrollment is determined by your school.

If you drop below half-time enrollment and then resume enrollment on at least a half-time basis before the end of the six-month grace period, your Direct Loan will return to "in-school" status and you will regain a full six-month grace period when you leave school or drop below half-time enrollment again.

Loan Disbursements

In most cases, your school will disburse the proceeds of your Direct Loan by crediting it to your school account to pay tuition and fees, room and board, and other authorized charges. If the loan disbursement amount exceeds school charges, the remaining balance of the disbursement will be paid to you directly by check or other means. You will be notified in writing each time your school disburses a portion of your loan. The notification will include—

- ▶ the expected date and amount of the loan disbursement, and
- ▶ your right to cancel all or a portion of your Direct Loan, and
- ▶ the procedures and time frame for notifying the school that you want to cancel all or a portion of your Direct Loan.

Limitation on Direct Subsidized Loan Eligibility for First-Time Borrowers on or After July 1, 2013

Why is this important to know?

How much time you spend in school may affect your responsibility for paying interest on any Direct Subsidized Loans you may receive. In addition, if you are returning to school, your eligibility for Direct Subsidized Loans may be limited by your prior Direct Subsidized Loan borrowing.

Maximum eligibility period for Direct Subsidized Loans

There is a limit on the maximum period of time (measured in academic years) that you can receive Direct Subsidized Loans. You may not receive Direct Subsidized Loans for more than 150 percent of the published length of your program. This is called your *maximum eligibility period*. Your maximum eligibility period is based on the published length of your current program. You can usually find the published length of any program of study in your school's catalog.

For example, if you are enrolled in a four-year bachelor's degree program, the maximum period for which you can receive Direct Subsidized Loans is six years (150 percent of 4 years = 6 years). If you are enrolled in a two-year associate degree program, the maximum period for which you can receive Direct Subsidized Loans is three years (150 percent of 2 years = 3 years).

This means that your maximum eligibility period can change if you change to a program that has a different length of study. Also, if you receive Direct Subsidized Loans for one program and then change to another program, the Direct Subsidized Loans you received for the earlier program will count toward your new maximum eligibility period.

Periods that count toward your maximum eligibility period

The periods of time that count against your maximum eligibility period are *periods of enrollment* (also known as *loan periods*) for which you received Direct Subsidized Loans. For example, if you are a full-time student and you receive a Direct Subsidized Loan that covers the fall and spring semesters (a full academic year), this will count as one year against your maximum eligibility period.

If you receive a Direct Subsidized Loan for a period of enrollment that is shorter than a full academic year, the period that counts against your maximum usage period will generally be reduced accordingly. For example, if you are a full-time student and you receive a Direct Subsidized Loan that covers the fall semester but not the spring semester, this will count as one-half of a year against your maximum eligibility period.

In most cases, the amount of a Direct Subsidized Loan you receive for a period of enrollment does not affect how much of your maximum eligibility period you have used. For example, if your annual loan limit is \$3,500 but for a full academic year you borrow only \$2,000, the eligibility used would still be considered one full academic year. However, if you receive a loan for the maximum annual loan limit for a period of enrollment that is less than an academic year, the loan period counts as one full year against your maximum eligibility period regardless of your enrollment status (half-time, three-quarter time, or full-time).

Borrowing while enrolled less than full time

If you receive a Direct Subsidized Loan while you are enrolled less than full time, the period that is counted against your maximum eligibility period will be reduced. For example, if you receive a Direct Subsidized Loan for a period of enrollment that covers a full academic year but you are enrolled as a half-time student, the period of enrollment will count as only one-half year against your maximum loan eligibility period.

Loss of eligibility for additional Direct Subsidized Loans

After you have received Direct Subsidized Loans for your maximum eligibility period, you are no longer eligible to receive additional Direct Subsidized Loans. However, you may continue to receive Direct Unsubsidized Loans.

Becoming responsible for paying interest on Direct Subsidized Loans

If you continue to be enrolled in an undergraduate program after you have received Direct Subsidized Loans for your maximum eligibility period, you become responsible (with certain exceptions) for paying the interest that accrues on your Direct Subsidized Loans. Your responsibility for paying the interest that accrues on your Direct Subsidized Loans begins on the date of your enrollment that follows your exhausting the 150 percent limit. The chart that follows provides examples of how changes in your circumstances can affect your having to pay the interest that accrues on your Direct Subsidized Loans.

Changing eligibility for Direct Subsidized Loans

Remember, your maximum eligibility period can change if you enroll in a different program. So, if you received Direct Subsidized Loans for your maximum eligibility period for one program and then enroll in a longer program, you will not become responsible for interest that accrues on your Direct Subsidized Loans after you begin the longer program and before you reach your maximum eligibility period (i.e., 150 percent of the published length of the longer program).

If you regain eligibility to receive additional Direct Subsidized Loans because you enrolled in a program that is longer than your prior program and you had been responsible for paying all of the interest that accrued on your prior Direct Subsidized Loans, you will not be responsible for the interest that accrues on your new loans during the periods described in the chart that follows.

Periods When Interest Accrues on Direct Subsidized Loans¹ and the 150%² Limitation

Period	Before meeting the 150% limit	After meeting the 150% limit
While enrolled in school at least half-time	No	Yes
During my grace period on loans first disbursed (paid out) July 1, 2012, through June 30, 2014	Yes	Yes
During my grace period on loans first disbursed (paid out) after June 30, 2014	No	Yes
During deferment periods	No	Yes
During certain periods of repayment under the Income-Based Repayment or Pay As You Earn Plan	No	Yes
During forbearance periods	Yes	Yes
During all other periods of repayment	Yes	Yes

¹ Interest on Direct Unsubsidized Loans and Direct PLUS Loans accrues during all periods.

² The 150% limit refers to 150% of the published length of your program.

How Changes in My Student Status Affect My Paying the Interest That Accrues on My Direct Subsidized Loans

Change	Yes	No
I am no longer eligible for Direct Subsidized Loans and I stay enrolled in my current program?	✓	
I am no longer eligible for Direct Subsidized Loans, did not graduate from my prior program, and am enrolled in an undergraduate program that is the same length or shorter than my prior program?	✓	
I transferred into the shorter program and lost eligibility for Direct Subsidized Loans because I have received Direct Subsidized Loans for a period that equals or exceeds my new, lower maximum eligibility period, which is based on the length of the new program?	✓	
I was no longer eligible for Direct Subsidized Loans, did not graduate from my prior program, and am enrolled in an undergraduate program that is longer than my prior program?		✓
I lose eligibility for Direct Subsidized Loans and immediately withdraw from my program?		✓
I graduated from my prior program prior to or upon meeting the 150% limit, and enroll in an undergraduate program that is the same length or shorter than my prior program?		✓
I enroll in a graduate or professional program?		✓
I enroll in preparatory coursework that I am required to complete to enroll in a graduate or professional program?		✓
I enroll in a teacher certification program (where my school does not award an academic credential)?		✓

Be Smart in Your Use of Financial Aid.

First, finance your education with free money. You don't have to repay grants, scholarships, or work-study earnings.

Your school's financial aid office determines your eligibility for each type of federal student aid, based on your *Free Application for Federal Student Aid* (FAFSASM). Filing the FAFSA is free! Go to the FAFSA site at **StudentAid.gov** to complete an application or forecast your eligibility for aid. It's FREE!

1. Apply for grants and scholarships.
 - ◆ Explore federal grant programs.
 - ◆ Search for scholarships and grants offered by your school and state as well as nonprofit and private organizations.
 - ◆ Consider scholarships for U.S. military service, education support offered by the military, and education benefits for veterans.
 - ◆ For more ideas and information, go to Types of Aid at **StudentAid.gov**.

2. Work Part Time.

- ◆ Explore job opportunities on or off campus.
- ◆ Explore work-study programs, including Federal Work-Study offered at your school. Contact your school's financial aid office.
- ◆ Balance work hours with your studies.

3. Borrow Only What You Need.

- ◆ You don't have to accept the full amount offered. You may request and borrow a lower amount.
- ◆ If you're eligible, take advantage of Direct Subsidized Loans. The government pays the interest while you are in school and during certain other periods (see chart on Page 10).

Next, use federal student loans before considering private loans.

Exhaust your federal student loan options before considering student loans offered by a private lender such as a bank or a credit union. Consult your school's financial aid administrator regarding all your student loan options. Private student loans may have disadvantages, including

- ▶ variable interest rates that can exceed 18%,
- ▶ requiring you to make loan payments while you're still in school,
- ▶ penalty fees for paying off your loan early,
- ▶ requiring an established credit record and using your credit score and other factors to determine the cost of your loan,
- ▶ requiring a cosigner,
- ▶ the inability to consolidate private student loans into a Direct Consolidation Loan,
- ▶ limited options for loan forgiveness, and
- ▶ limited options for deferments and forbearances.

Federal student loans usually offer the following advantages over private loans:

- ▶ Lower interest rates and interest rates that are fixed once the loan is made.
- ▶ The federal government generally will make interest payments on Direct Subsidized Loans while you are in school on at least a half-time basis.
- ▶ No credit check required, except for Direct PLUS Loans.

- ▶ Flexible and affordable repayment plans for Direct Loans.
- ▶ The ability to consolidate federal education loans into a Direct Consolidation Loan (see the later section Loan Consolidation).

Repayment

What is repayment?

Repayment is the process of satisfying your obligation to pay back the money you borrowed to help you pay for your education. For Direct Subsidized Loans and Direct Unsubsidized Loans, repayment begins when your grace period (see page 15) ends.

What determines the rules of my repayment?



Did you know?

You must repay the full amount of your federal student loans, even if you

- don't complete your program of study,
- can't find employment after graduation, and/or
- aren't satisfied with or didn't receive the education or other services that you paid for with your federal student loans.

You repay your loan according to a *Repayment Plan* set up and agreed upon between you (the borrower) and your lender. The repayment plan you choose determines the amount you pay each month and the number of payments you must make.



How interest accrues

Direct Loans are "simple daily interest" loans. This means that interest accrues daily. The amount of interest that accrues per day is calculated by dividing the interest rate on your loan (as a decimal) by the number of days in a year, and then multiplying that by the outstanding principal balance of the loan.

For example, on a \$10,000 Direct Unsubsidized Loan with a 6.8% interest rate, the amount of interest that accrues per day while the loan has an outstanding balance of \$10,000 is \$1.86, calculated as follows:

$$(0.068 / 365) \times \$10,000 = \$1.86$$

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