

# YOUR FEDERAL STUDENT LOANS

Learn the Basics and Manage Your Debt



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FEDERAL STUDENT AID

## WEBSITES AND CONTACT INFORMATION

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### Student Aid on the Web

[www.studentaid.ed.gov](http://www.studentaid.ed.gov)

Your source for in-depth information on preparing for and funding education beyond high school.

### FAFSA on the Web<sup>SM</sup>

[www.fafsa.gov](http://www.fafsa.gov)

Apply online for federal student aid.

### National Student Loan Data System<sup>SM</sup> (NSLDS<sup>SM</sup>)

[www.nsls.ed.gov](http://www.nsls.ed.gov)

Use your Federal Student Aid PIN to access your federal student loan records.

### Military

[www.studentaid.ed.gov/military](http://www.studentaid.ed.gov/military)

If you are in the armed forces or have a family member in the service, visit this site to find out more about grants, repayment, and forgiveness options.

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[www.mymoney.gov](http://www.mymoney.gov)

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To report student aid fraud (including identity theft), waste, or abuse of U.S. Department of Education funds.

**1-800-MIS-USED (1-800-647-8733)**

E-mail: [oig.hotline@ed.gov](mailto:oig.hotline@ed.gov)

Website: [www.ed.gov/misused](http://www.ed.gov/misused)

### Federal Student Aid Information Center (FSAIC)

To call or write if you have questions on federal student aid.

**1-800-4-FED-AID (1-800-433-3243)**

TTY users can call **1-800-730-8913**. Callers in locations without access to **1-800 numbers** may call **319-337-5665**.

E-mail: [studentaid@ed.gov](mailto:studentaid@ed.gov)

P.O. Box 84

Washington, DC 20044-0084

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U.S. Department of Education  
Federal Student Aid

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December 2010

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# INTRODUCTION

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When you're considering college—or some form of education after high school—financial aid almost always comes to mind.

While you have the primary responsibility of paying for college, sometimes those funds just aren't enough and you need to look at other resources. The U.S. Department of Education provides more than \$150 billion in federal student aid (grants, work-study, and loans) each year to students seeking a postsecondary education (a degree after high school). About 14 million students currently receive federal student aid with a majority receiving federal student loans. In addition to federal student aid, financial aid is also available from colleges, companies, private scholarship funds, or the state in which you live. So there are resources to help you pay for college, but you have to utilize them!

As you explore your financial aid options, make sure to consider federal student loans. These loans are a possibility for everyone because not all federal student loans are based solely on financial need. If you have any questions or concerns about getting a federal student loan, then make sure to review this publication.

## Why should I read this publication?

If you're thinking about getting a federal student loan, are in the process of obtaining one, or already have one, you should read this publication. This booklet will help you understand the federal student loan process and help you make informed financial decisions.

**REMEMBER:** *Federal student loans are real loans, just like car loans or mortgage loans. You must repay a student loan even if your financial circumstances become difficult. Federal student loans usually can't be written off in bankruptcy. They can't be canceled because you didn't get the education or job you expected, and they can't be canceled because you didn't complete your education (unless you couldn't complete your education because your school closed).*

## Glossary

*Definitions of financial aid terms used in this publication can be found in the Glossary on page 37.*

# YOUR FEDERAL STUDENT LOANS

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# PREPARE—UNDERSTANDING FINANCIAL AID AND YOUR LOAN OPTIONS

Paying for a postsecondary education (college or trade school) is an investment. It requires planning. It takes money. So talk with your family openly and early. If you're in high school, you can also talk to a guidance counselor at your school; they often have helpful information about planning for a postsecondary education. You also can contact a financial aid office at the college you plan to attend or are considering attending.

## How much does college cost?

To determine your total college costs, you should get as much detailed information as you can from schools you are interested in. These costs are usually listed in the college's brochure or on its website. Keep in mind that college costs are not just tuition and room and board. Table 1 provides a description of common college costs.

**Table 1.**  
**Description of college costs by selected expenditure items**

Item	Description
Tuition	The cost of taking a course varies from school to school. To search for tuition costs at different colleges, go to <a href="http://www.studentaid.ed.gov/myfsa">www.studentaid.ed.gov/myfsa</a> .
Room and board	The cost of lodging and food varies from school to school. Go to <a href="http://www.studentaid.ed.gov/myfsa">www.studentaid.ed.gov/myfsa</a> to search for estimated costs.
Books and school supplies	Books can be expensive. School supplies can include book bags, notebooks, pens, pencils, paper, folders, stapler, desk organizing system (trays, pen holder, etc.), computer paper, etc. According to the College Board, the national average cost for textbooks at four-year public colleges in 2009–10 was \$1,122.
Fees	Fees will depend on the school you're attending. This list can be obtained directly from the school. Fees include activity fees, parking decal fees, etc.
Equipment and room materials	Equipment may include a computer, printer, etc. Furnishings or room materials may include such items as reading lamps, microwave, refrigerator, sheets, towels, etc.
Travel and miscellaneous expenses	If you live on campus, you'll probably need to travel during school breaks. Other expenses can include clothing and cell phone use.

### What financial resources are there?

You and your family have the responsibility of planning and paying for college. Your financial resources come from

- scholarships,
- prepaid or college savings plans,
- personal savings, and
- money from work (summer, part-time, etc.).

If you still need additional money, turn to

- the federal government, and
- institutional and state aid.

### What is the federal government's role in financial aid?

The federal government is the main provider of financial aid for college. Every year, students and parents receive more than \$150 billion in federal student aid. With all these funds available, applying for aid from the federal government is a good option. Federal student aid from the federal government includes:

- **grants**—free money that doesn't have to be repaid, except in some cases when you withdraw from school;
- **work-study**—money you earn to pay for your education;
- **loans**—money you borrow for school, which you must repay with interest.

### Why should I consider a loan from the federal government?

Federal student loans usually offer borrowers lower interest rates and have more flexible repayment options than loans from banks or other private sources.

### What about grants and work-study from the federal government?

This publication is focused on loans because they are the largest source of federal student aid. For detailed information on our grant and work-study programs, visit Student Aid on the Web at [www.studentaid.ed.gov/applying](http://www.studentaid.ed.gov/applying). Student Aid on the Web also has information on scholarships and other sources of federal and nonfederal aid for college.



## What types of federal student loans are there and how much can I borrow?

The following tables compare and summarize federal student loan programs offered by the U.S. Department of Education.

**Table 2.**  
Federal student loan programs for the 2011–12 award year

Loan program	Eligibility (i.e., who can get the loan)	Fixed annual interest rate	Annual loan limit	Maximum loan amount allowed when you graduate	Details
<b>Federal Perkins Loans</b>	Undergraduate and graduate students enrolled at least part-time and who demonstrate financial need	5%	Undergraduate students: Up to \$5,500  Graduate students: Up to \$8,000  Amount actually received depends on financial need, amount of other aid, and availability of funds at school.	Undergraduate students: \$27,500  Graduate students: \$60,000 (this amount includes undergraduate loans)	Your college is the lender.
<b>William D. Ford Direct Stafford Loans</b>  <b>Direct Subsidized Stafford Loans</b>	Undergraduate and graduate students enrolled at least half-time  Must demonstrate financial need	Undergraduate students:  For loans first disbursed on or after July 1, 2010 and before July 1, 2011: 4.5%  For loans first disbursed on or after July 1, 2011 and before July 1, 2012: 3.4%  Graduate students: 6.8%	\$3,500–\$8,500, depending on year in school  A detailed breakdown is provided in Table 4.	Undergraduate students: \$23,000  Graduate students: \$65,500	The U.S. Department of Education is the lender and pays interest on the loan while you are in school at least half-time and during grace and deferment periods.
<b>Direct Unsubsidized Stafford Loans</b>	Undergraduate and graduate students enrolled at least half-time  Financial need is not required	6.8%	\$5,500–\$20,500 (less any subsidized amount received for the same period) depending on year in school and dependency status  A detailed breakdown is provided in Table 4.	Dependent undergraduate students: \$31,000 (no more than \$23,000 of this amount may be in subsidized loans)  Independent undergraduate students: \$57,500 (no more than \$23,000 of this amount may be in subsidized loans)  Graduate students: \$138,500 (no more than \$65,500 of this amount may be in subsidized loans)—this includes loans received for undergraduate study	The U.S. Department of Education is the lender.  You are responsible for paying all interest on the loan starting on the date the loan is first disbursed.

Federal student loan programs for 2011–12 (continued from page 5)

Loan program	Eligibility (i.e., who can get the loan)	Fixed annual interest rate	Annual loan limit	Maximum loan amount allowed when you graduate	Details
<b>Direct PLUS Loans</b>	<p>Graduate and professional students and parents of dependent undergraduate students</p> <p>Student must be enrolled at least half-time</p> <p>Financial need is not required</p> <p>Those qualifying must not have adverse credit history.</p>	7.9%	The student's cost of attendance (determined by the school) minus any other financial aid received	No aggregate limit for PLUS Loans	<p>The U.S. Department of Education is the lender.</p> <p>The loan is unsubsidized (i.e., you are responsible for paying all interest).</p>
<b>Direct Consolidation Loans</b>	<p>Students who want to combine multiple federal student loans into one loan</p> <p>Parent PLUS loans cannot be transferred to the student and become the student's responsibility.</p>	<p>Fixed rate is based on the weighted average of the interest rates on the loans being consolidated, rounded up to the nearest one-eighth of 1%.</p> <p>Cannot exceed 8.25%</p>	Not applicable	Not applicable	

For interest rates on loans disbursed before July 1, 2010, go to [www.studentaid.ed.gov/interestrates](http://www.studentaid.ed.gov/interestrates).

**NOTE:** Before July 1, 2010, Stafford, PLUS, and Consolidation Loans also were made by private lenders under the Federal Family Education Loan (FFEL<sup>SM</sup>) Program. As a result of legislation passed in 2010, no further loans will be made under the FFEL Program. All new Stafford, PLUS, and Consolidation Loans will come directly from the U.S. Department of Education under the Direct Loan Program.



Because you can't borrow more than your cost of attendance minus any other financial aid you'll get, you may receive less than the annual maximum amounts. Also, the annual loan limits assume that your program of study is at least a full academic year. The maximum annual and total loan limits include any Stafford Loans you may have received under the FFEL Program.

**Table 3.**  
**Comparison of subsidized vs. unsubsidized loans: interest rates, interest accrual and payment, and capitalization**

Subsidized	Unsubsidized
The federal government pays interest on subsidized loans while you are in school at least half-time and during grace and deferment periods.	Interest starts accruing (accumulating) from the time the funds are disbursed to you.
	You're responsible for paying that interest.
	You can choose to either pay it while you are in school or let it accrue.
	The amount you let accrue will be added to the principal balance of your loan (capitalized).
	If you let your interest capitalize, it increases your loan principal balance and you will then have to pay interest on the increased loan principal amount. The total amount you repay over the life of your loan will be greater than if you paid interest while you were in school.

Graduate and professional students enrolled in certain health profession programs may receive additional Unsubsidized Stafford Loan amounts beyond those shown in table 4. There is also an increased aggregate loan limit of \$224,000 (maximum \$65,500 subsidized).

**Table 4.**  
**Annual and aggregate loan limits for Direct Stafford Loans**

Year	Dependent undergraduate students (except students whose parents are unable to obtain PLUS Loans)	Independent undergraduate students (and dependent students whose parents are unable to obtain PLUS Loans)	Graduate and professional degree students
<b>First Year</b>	\$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.	\$20,500—No more than \$8,500 of this amount may be in subsidized loans.
<b>Second Year</b>	\$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.	
<b>Third Year and Beyond (each year)</b>	\$7,500—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.	
<b>Maximum total debt from Direct Stafford Loans when you graduate</b>	\$31,000—No more than \$23,000 of this amount may be in subsidized loans.	\$57,500—No more than \$23,000 of this amount may be in subsidized loans.	\$138,500—No more than \$65,500 of this amount may be in subsidized loans. The graduate debt limit includes Stafford Loans received for undergraduate study.

**NOTE:** *If your parents don't qualify for a PLUS Loan, you might be able to get additional funds up to the amount listed under independent undergraduate students in table 2. See your financial aid administrator (FAA) for more information.*

### Can I get an estimate on how much aid I will get?

Yes. *FAFSA4caster*<sup>SM</sup> is a calculator that you can use to get an estimate of the federal student aid (grants, work-study, and loans) you may receive. You can access *FAFSA4caster* at [www.FAFSA4caster.ed.gov](http://www.FAFSA4caster.ed.gov) and [www.fafsa.gov](http://www.fafsa.gov).

### Do all schools participate in the federal loan programs?

No, they don't. You need to contact your school to find out if it participates in the federal loan programs.

### How are federal student loans different from private loans?

While every student wants scholarships and grants, not everyone can cover the entire cost of college or career school through those options. Loans can make your education possible and affordable.

However, when exploring your loan options, you should consider federal student loans before any private loans. Federal student loans have lower and fixed interest rates, generous repayment plans, no prepayment penalties, and no credit checks (except for PLUS Loans).

In contrast, private loans, which may be aggressively marketed to students through TV ads, mailings, and other media, are substantially more expensive than federal student loans. They generally have higher, variable interest rates that may substantially increase the total amount you repay and the interest rate you receive might depend on your credit score. Private loans also can have prepayment penalty fees.

Table 5 shows why federal student loans are a better option than private student loans.





**Table 5.**  
**Federal student loans vs. private loans**

Federal student loans (loans from the federal government through the U.S. Department of Education)	Private student loans (nonfederal loans from a bank, credit union, or other financial institution)
You will not have to start repaying your federal student loans until you graduate, leave school, or change your enrollment status to less than half-time (see page 24).	Many private student loans require payments while you are still in school.
The interest rate is fixed and is almost always lower than private loans—and much lower than credit card interest rates. For loans first disbursed on or after July 1, 2010, and before July 1, 2011, the interest rate is 4.5% for subsidized loans for undergraduate students and 6.8% for unsubsidized loans for undergraduate and graduate students. The rate for subsidized loans made to graduate students is 6.8%.	Private student loans can have variable interest rates, some greater than 18%.
Students with greater financial need might qualify for a subsidized loan. The government pays the interest.	Private student loans are not subsidized. No one pays the interest on your loan but you.
You don't need to pass a credit check to get a federal student loan (except for PLUS Loans). Federal student loans can help you establish a good credit record.	Private student loans may require an established credit record. The cost of a private student loan depends on your credit score, which you may not yet have as a student.
You don't need a co-signer (except for PLUS Loans) to get a federal student loan.	You may need a co-signer to get the best possible deal.
Free help is available at 1-800-4-FED-AID and on our websites. You also have 24/7 access to your loan account information via the Internet.	You need to find out if there is free help.
Some interest is tax deductible.	Interest may not be tax deductible.
Loans can be consolidated into a Direct Consolidation Loan. See <a href="http://www.loanconsolidation.ed.gov">www.loanconsolidation.ed.gov</a> or page 33 for more information on consolidation loans and to see if this option will benefit you.	Private student loans can't be consolidated into the federal loan consolidation program.
No prepayment penalty fee.	You need to make sure there are no prepayment penalty fees.

Also avoid using credit cards to pay for your education. Interest rates on credit cards are very high, payments are due every month, and usually don't offer different repayment and deferment (temporarily postpone payments) options.

**Table 6.**  
**Sources of financial aid**

Maximize the Sources of Aid You Don't Have to Repay	
<b>MONEY YOU DO NOT HAVE TO REPAY</b>	1. Scholarships and Grants 2. Savings 3. Work-Study Earnings
<b>CHEAPEST LOANS</b>	4. Federal Student Loans <ul style="list-style-type: none"> <li>• Perkins Loans</li> <li>• Direct Subsidized Stafford Loan</li> <li>• Direct Unsubsidized Stafford Loan</li> <li>• PLUS Loans</li> </ul>
<b>EXPENSIVE LOANS</b>	5. Private Educational Loans 6. Home Equity Loans 7. Credit Cards

Source: Consumers Union. July 2007. *Helping Families Finance College: Improved Student Loan Disclosures and Counseling*. Yonkers, NY.

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