FEDERAL STUDENT LOANS

BASICS FOR STUDENTS

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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Whether you're an adult returning to school or a recent high school graduate, there's a lot to consider when you're thinking about college or career school. One of those considerations should be how you plan to fund your education.

Chances are, you'll to need to rely on student loans (money that you borrow and pay back with **interest***) to help pay for at least part of your education.

Direct Loans (loans made by the federal government) are available to help you cover your education expenses. This brochure will help guide you through the basics of responsible borrowing.

BASICS OF STUDENT LOANS

With careful planning and an understanding of the basics of student loans, you can help ensure that you achieve your academic goals and graduate with a manageable amount of debt.

Know the Types of Direct Loans

The U.S. Department of Education (ED) offers Direct Loans through the William D. Ford Federal Direct Loan (Direct Loan) Program. There are three types of Direct Loans that can help students and parents pay for education after high school.

LOAN TYPE	AVAILABLE TO	DETAILS AND UPDATES
Direct **Subsidized Loans***	Undergraduate students who have financial need	**StudentAid.gov/sub-unsub**
Direct **Unsubsidized Loans***	Undergraduate, graduate, and professional degree students	**StudentAid.gov/sub-unsub**
Direct PLUS Loans	Graduate and professional degree students, and parents of dependent undergraduate students (you must not have an adverse credit history)	**StudentAid.gov/plus**

For information on current Direct Loan interest rates, visit **StudentAid.gov/interest**.

Consider Direct Loans First

Student loans can also come from private sources, such as banks or financial institutions. These are often called private student loans. Direct Loans have many benefits that private loans don't typically offer, such as

- low fixed interest rates;
- flexible repayment plans based on income;
- cancellation, discharge, and forgiveness of loans under certain circumstances (learn more at **StudentAid.gov/forgiveness**); and
- postponement options, including **deferment*** and **forbearance*** of loan payments if you return to school or experience an economic hardship.

To learn more about the differences between Direct Loans and private loans, visit **StudentAid.gov/federal-vs-private.**

***Please refer to the glossary on the back page**

STEPS TO RECEIVE DIRECT LOANS

Determine Your Eligibility

To qualify for a Direct Loan, you must be enrolled (or planning to enroll) at least half-time at a school that participates in the Direct Loan Program. You must also meet general eligibility requirements for the federal student aid programs. You can learn more about these requirements at **StudentAid.gov/eligibility**.

Fill Out the FAFSA® Form

To apply for Direct Loans, you need to complete the *Free Application for Federal Student Aid* (FAFSA®) form every year you're in school. Completing and submitting the FAFSA form is **free**, and the fastest and easiest way to do so is online at **fafsa.gov**.

Visit **StudentAid.gov/fillingout** for details about the application process.

Review Aid Offers

The schools that you identified on your FAFSA form (and that have offered you admission) will send you financial aid offers that include the types and amounts of financial aid you may receive. You'll be asked to indicate which financial aid you want to accept.

A good rule of thumb is to accept free money first (**scholarships*** and **grants***), then earned money (**work-study***), and then borrowed money (Direct Loans). You don't have to repay grants, scholarships or work-study earnings (as long as you complete the term for which you were paid). Once you have exhausted those options, then you should look to Direct Loans. **Remember, loans are borrowed money that must be repaid with interest, so you should borrow only what you need.**

Visit **StudentAid.gov/types** to learn more about the different types of aid.

Complete a Master Promissory Note and Entrance Counseling

Before you can receive a Direct Loan, you'll have to sign a loan agreement called a ***Master Promissory Note* (MPN).*** If you're borrowing for the first time, you'll also need to receive **entrance counseling**.* Both requirements can be completed on **StudentAid.gov**, but you should check with your school's financial aid office to find out how they expect you to complete them.

***Please refer to the glossary on the back page**

THINGS TO CONSIDER BEFORE RECEIVING A LOAN

Direct Loans can help you pay your education expenses, but you need to borrow responsibly. It's important that you do the following before you borrow.

Determine How Much You Should Borrow

Figure out how much money you will need to borrow to cover your education expenses for each year you're in school. Any school that participates in the federal student aid programs is required to provide information on its cost of attendance and to offer a **net price*** calculator on its website.

The following factors will also affect how much you need to borrow:

- Where you plan to attend school (the cost of living is different depending on the city your school is in)
- The price of the school you plan to attend (the more expensive the school, the more likely it is you will have to borrow)
- The amount of financial aid your school can offer from its funds (some schools offer significant scholarships and grants to make the net price affordable even if the cost of attendance is high)
- Your expected graduation date and your future borrowing needs to get you through to graduation (you can get a rough estimate of your total borrowing needs by multiplying the amount you're borrowing for one year by the length of your program)

For suggestions on reducing your college costs, visit **StudentAid.gov/collegecost**.

Estimate What You Might Earn After Graduation

Check with the career center at your school for starting salaries of recent graduates in your prospective field(s) of study to get an idea of how much you might earn after you graduate. Different programs will have different expected employment outcomes that will influence your earning potential.

Add up your estimated total net income (your monthly salary minus taxes) and any other sources of income you expect to have.

Understand What Repayment Might Look Like

Once you have a realistic idea of your potential income after you graduate, and the amount you need to borrow to meet your education expenses, you'll want to determine your estimated monthly loan payment amount and the amount you'll pay in total for your loan. To get an idea of what your monthly student loan payment will be under available repayment plans, use the *Repayment Estimator* at **StudentAid.gov/repayment-estimator**.

You'll need to repeat this process each time you receive a student loan to ensure that you are calculating your payments based on your accumulated total loan debt.

You'll want to make sure that you are able to live comfortably after meeting your monthly student loan payment. You should try to keep your monthly payments to 8% of your monthly pay.

After you leave school or drop below half-time enrollment, your **loan servicer*** will contact you and provide you with loan repayment information. Generally, you will be expected to start making payments six months after you leave school or drop below half-time enrollment. Learn more at **StudentAid.gov/repay**.

***Please refer to the glossary on the back page**

TIPS FOR MANAGING YOUR LOANS

Don't wait until you leave school to review your student loan debt. If you wait, you may find you have borrowed more than you can afford to repay.

Track Your Borrowing

You can view your federal student aid history at **StudentAid.gov/login. If you have private loans, they will not be listed there.**

Pay Interest as It Accumulates

Whenever possible, pay interest on your Direct Loans while you're in school, and during **grace,*** deferment, and forbearance periods. This will allow you to avoid **capitalization*** of any unpaid interest.

Stay in Touch With Your Loan Servicer

At any time after you receive a Direct Loan, you must notify your loan servicer if you

- change your address or telephone number;
- change your name (for example, maiden name to married name); or
- have any change in status that would affect your loan (for example, if you received a deferment, but you no longer meet the eligibility requirements for the deferment).

***Please refer to the glossary on the back page**

CONTACT US

U.S. Department of Education

Federal Student Aid Information Center (FSAIC)
P.O. Box 84
Washington, DC 20044-0084
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 1-334-523-2691 (this is not a toll-free number).

Stay Connected

Access your federal student loan information at **StudentAid.gov/login**

Information for U.S. armed forces **StudentAid.gov/military**

/FederalStudentAid

/FAFSA

/FederalStudentAid

The information in this guide was updated in fall 2019. For changes to federal student aid programs since then, visit **StudentAid.gov**.

GLOSSARY

Terminology	What does it mean?
Capitalization	The addition of unpaid interest to the principal balance of a loan. When the interest on your federal student loan is not paid as it accrues (accumulates), ED will capitalize the interest under certain circumstances. This increases the outstanding **principal*** amount due on the loan and may cause your monthly payment amount to increase. Interest is then charged on that higher principal balance, increasing the overall cost of the loan.
Deferment	A postponement of payment on a loan. Deferment is allowed under certain conditions. During deferment, interest does not generally accrue (accumulate) on Direct Subsidized Loans. All other Direct Loans that are deferred will continue to accrue interest. Any unpaid interest that accrued during the deferment period may be capitalized (added to the principal balance of the loans).
Direct Subsidized Loan	A loan based on financial need for which the federal government generally pays the interest that accrues while the borrower is in an in-school, grace, or deferment status. A borrower is eligible to receive subsidized loans for up to 150% of his or her program length.
Direct Unsubsidized Loan	A loan for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan. This type of loan is not based on financial need.
Entrance Counseling	A mandatory information session, which takes place before you receive your first federal student loan; entrance counseling explains your responsibilities and rights as a student borrower.
Forbearance	A period during which your monthly loan payments are temporarily suspended or reduced. ED may grant you forbearance if you are willing but unable to make loan payments due to certain types of financial hardships. During forbearance, principal payments are postponed but interest continues to accrue (accumulate). Unpaid interest that accrues during the forbearance will be capitalized (added to the principal balance of your loans), increasing the total amount you owe.
Grace Period	A period of time (generally six months) after you graduate, leave school, or drop below half-time enrollment during which you are not required to make payments on certain Direct Loans. Some Direct Loans will accrue interest during the grace period, and if the interest is unpaid, it will be added to the principal balance of the loan when the repayment period begins.
Grant	Financial aid, often based on financial need, that does not have to be repaid (unless, for example, you withdraw from school and owe a refund).
Interest	A loan expense charged for the use of borrowed money. Interest is paid by the borrower to ED. The expense is calculated as a percentage of the unpaid principal amount of the loan.
Loan Servicer	A company that collects payments, responds to customer service inquiries, and performs other administrative tasks associated with maintaining a federal student loan on behalf of ED. If you're unsure of who your federal student loan servicer is, you can look it up in "My Federal Student Aid" at **StudentAid.gov/login**.
***Master Promissory Note* (MPN)**	A binding legal document that you must sign when you get a federal student loan. The MPN can be used to make one or more loans for one or more academic years (up to 10 years) at one or more schools. It 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 and save your MPN because you'll need to refer to it later when you begin repaying your loan or at other times when you need information about loan provisions, such as deferments or forbearances.
Net Price	An estimate of the actual cost that a student and his or her family need to pay in a given year to cover education expenses for the student to attend a particular school. Net price is determined by taking the institution's cost of attendance and subtracting any grants and scholarships for which the student may be eligible.
Principal	Loan principal can refer either to the original amount borrowed (original principal), or to the remaining amount of principal to be repaid (current principal). The current principal balance may include interest that has been capitalized (for example, interest that was capitalized at the end of a period of deferment or forbearance).
Scholarship	Money awarded to a student based on academic or other achievements to help pay for education expenses. Scholarships generally do not have to be repaid.
Work-study	A federal student aid program that provides part-time employment while a student is enrolled in school. Work-study earnings help pay the student's education expenses.