

FEDERAL LOAN FAQs

1. What are the Federal Loan Programs?

There are 4 types of loans awarded by the federal government:

1. Federal Direct Subsidized Loan
2. Federal Direct Unsubsidized Loan
3. Federal Perkin's Loan
4. Federal PLUS Loan (Parent's Only)

2. What is the difference between Subsidized and Unsubsidized Loans?

A Subsidized Loan is one where the government pays the interest on the loan while the student is in college at least ½ time and during the deferment period. Interest will only start to accrue if the student drops below ½ time or graduates from college. The Federal Subsidized Direct Loan and Federal Perkin's loan are both loans that interest is subsidized by the federal government.

The Unsubsidized Loan is one where the interest will start to accrue immediately after the loan is disbursed. You have the option to pay interest while in college and during deferment periods. If you choose not to pay the interest while you're in school, it will be added to the unpaid principal amount of your loan. This is called "capitalization," and it can substantially increase the amount you repay.

3. What are the current interest rates for Federal Loans disbursed after July 1, 2011?

The interest rates vary by the type of loan- all interest rates are fixed:

1. Federal Direct Subsidized Loan 3.4%
2. Federal Direct Unsubsidized Loan 6.8%
3. Federal Perkin's Loan 5%
4. Federal PLUS Loan 7.9%

4. What are the interest rates for Private Loans?

Interest rates for Private Loans are variable and are given based on the borrower or the co-signer's credit scores. The higher the borrower or co-signer's credit score, the lower interest rate will be.

5. Are Federal Loans better than a Private Loan where I could get a lower interest rate?

You may be able to qualify for a lower interest rate with a private loan, but the interest rate is variable- usually based on the Prime or LIBOR index. These are both currently at a low, but it cannot be predicted how they will change over the course of the next 4 years while in college or during your repayment period. There are also many repayment benefits with the federal student loans including loan forgiveness after 10-20 years depending on your occupation and income based repayment (monthly payment is based on your income level and family size). Private lenders do not offer loan forgiveness or income based repayment.

6. Whose name will the loan be in?

The Federal Direct Loan and Perkins Loan are both in the Student's name. The Federal PLUS Loan is in the Parent's name. Most Private Student Loans are in the Student's name with a Parent or other credit worthy adult co-signer.

7. When will I find out what loans I have been awarded from the college?

The Federal Direct Loans awarded to you will be included on your financial aid award from the college. Most colleges send their financial aid awards between the middle of March and the middle of April. The award will let you know if you have been awarded the subsidized or unsubsidized loan. If you qualify for the Federal Perkins Loan (this loan is awarded only to students with the most need) it will also be included on your financial aid award letter. Some colleges will include the Parent PLUS Loan eligibility on your financial aid award; some require you to request the loan first. Either way, your parent(s) must apply for this loan and have an acceptable credit history to receive this loan. Private Loans require you to seek out a lender and apply for the loan. Your college may provide you with a list of lenders, but won't usually tell you exactly which loan to apply for because they are not familiar with your financial situation and do not want to get in trouble for giving a lender preferential treatment or risk being involved in predatory lending. Some colleges (mostly Ivey League or Non-Accredited colleges) do not include Federal Loans on their awards- if you are not awarded a Federal Loan, and you would like to take one out to assist in paying for college, check with your college's financial aid office to see if they participate in these loan programs.

8. Can I change the Unsubsidized Loan awarded to a Subsidized Loan?

You cannot make this change; the college that awarded the loan is the only one that can make the change. You must appeal to the financial aid office at the college and request part of the Unsubsidized Loan to be redistributed into a Subsidized Loan. This is not always a successful appeal because the Subsidized Loan is awarded based on financial need; you usually must show a special circumstance that increases your need to qualify for the change.

9. What is the Entrance Exam/Entrance Counseling?

The Entrance Exam requires the student to read information about borrowing money to pay for college. The student is given information about the loan in general, federal interest rates and repayment options. The student must then answer a series of questions correctly about the information they just read before being able to borrow from the federal government. The Entrance Exam is usually done online at www.studentloans.gov.

10. What is the Master Promissory Note and how do I sign it?

The Master Promissory Note (MPN) is the contract between the borrower and lender stating that the borrower promises to repay the amount borrowed. The MPN usually only needs to be signed once and the borrower can take out an additional loan amounts each year without filling out a new Promissory Note each year. Most colleges require the MPN to be signed online at www.studentloans.gov.

11. What is the Exit Exam/Exit Counseling?

The exit Exam or Exit Counseling helps you understand your rights and responsibilities as a student loan borrower. It provides useful tips and information to help you manage your loans. This step is required before you withdraw, graduate, or drop below half-time attendance (even if you plan to transfer to another school) and can be completed either online at www.studentloans.gov or in person at the college (depending on the school's policy).

12. I received the Stafford Loan last year through a bank- I'm being asked to sign the MPN again this year, why?

When the Federal Government passed the Federal Healthcare Bill into Law there was a provision that required all federal loans to be borrowed directly from the federal government and eliminated banks as the 'middle man'. Because the lender is changing (from the bank to the government) a new MPN needs to be signed to promise repayment.

13. How are loans disbursed?

Loans are paid directly to the college and applied to the balance of your college bill. If any amount is left over it will be refunded to the borrower to be used toward living expenses and other outside educational cost such as books and a computer. Some colleges will ask you to fill out a form instructing them on what to do with excess funds- apply them to past balances, put them on your college account or send a check for the refund. Most loans are disbursed at the beginning of each semester or quarter (depending on the system your college uses). For example, if your school is on semesters ½ of your loan will be disbursed in the fall and the other half in the spring. If there is any amount left over it will be sent to the student at the beginning of each semester.

14. Why do I need to apply for loans every year?

Costs involved with college change each year and your family's financial situation might also change to increase or decrease financial aid. These changes will affect the amount you need to borrow from loans so you have to apply for a new loan with the specific amount each year. Terms to borrow may also change. Qualifying for a loan one year does not guarantee you'll qualify for it again the next year, especially if your credit score decreases.

15. Are there any alternatives to taking out a loan?

There are some alternatives to taking out a loan to pay for college. These alternatives can be discussed with your college funding advisor. Your college funding advisor is most familiar with your financial situation and can answer your specific questions regarding funding alternatives.

16. When does repayment begin?

Repayment on the Federal Direct Loans is required 6 months after you drop below half time in college. This could happen if you graduate, drop out of college or take a leave of absence. If you are unable to make payments at this time there are many options to defer or reduce payments.

Repayment for the Federal Perkin's Loan is required 9 months after you drop below half time in college. This could happen if you graduate, drop out of college or take a leave of absence. If you are unable to make payments at this time there are many options to defer or reduce payments.

Repayment on the Federal PLUS Loan can begin either 60 days after the loan is fully disbursed or can be deferred until six months after the dependent student on whose behalf the parent borrowed ceases to be enrolled in college at least a half-time. If the borrower cannot make the payments they have the option to have the loan payments deferred. To defer payments, the borrower must contact the Direct Loan Servicing Center after the loan is disbursed. It is best to contact their office by phone to ensure they have all that is necessary to complete the deferment; their number is 800.848.0979.

Repayment on Private Loans depends on the lender. Most allow you to defer payments until 6 months after you drop below half time in college. Some lenders require payments on interest only or interest and principal while in college. Be sure to read all information associated with borrowing from your private lender before taking on the loan. If you are unable to make payments at the required time, some lender will reduce or defer payments for limited reasons such as unemployment.



Information from www.studentaid.ed.gov - last updated 3/15/11