STUDENT LOANS

Student loans are specifically used to help students pay for tuition, books, fees, and living expenses. Student loans differ from other types of loans in that the interest rate is likely lower and the repayment schedule may be deferred while the student is still in school. With college tuition and other education related expenses steadily increasing each year, it may be necessary to take out these loans to help cover these costs.

FEATURES

ELIGIBILITY

Calculating one's student loan eligibility begins with completing the Free Application for Federal Student Aid (FAFSA). This information is then used to calculate the Expected Family Contribution (EFC) for the school the student plans on attending. The EFC is subtracted from school's "student budget" (the stated cost of attending that school including tuition, books, room and board, etc.) to reach the amount that is eligible for financial aid. Through various types of grants, scholarships, and loans, the student is able to fund the gap between the student budget and EFC.

FEDERAL LOANS

After maxing out scholarships and grants, students can look at taking out federal student loans which are available through the Department of Education's Federal Direct Lending Program (FDLP). Student loans available under federal programs have very attractive terms when compared with most other loan options — lower interest rates that are set by the government, the ability to postpone making payments, longer repayment terms, and less stringent credit requirements.

- **Subsidized** - Students must show financial need to qualify for a subsidized loan. All interest on subsidized loans is paid by the government while the student is actually enrolled at least half time and during certain periods, such as grace and deferment.
- **Unsubsidized** - These are available regardless of financial need. The student must pay all interest on unsubsidized loans as it is accrued.
- **Direct PLUS Loan** - The Direct PLUS (Parent Loan for Undergraduate Students) program offers unsubsidized loans to parents of dependent students. The parents must pay all interest on Direct PLUS loans.

PRIVATE LOANS

Private loans should only be taken out once federal loans have been maximized as these often have more stringent credit requirements, may require a cosigner, and do not offer unsubsidized interest options. However, a major benefit of private loans is that they can also be used to cover the Expected Family Contribution (EFC), which federal loans cannot. Often times, a family or student is not able to pay even that amount, as the calculations of the EFC may not take other important circumstances into account. Private loans can then be used to fill that gap, ensuring that the entire "Student Budget" can be fully funded.

LOAN REPAYMENT TERMS

After a student graduates, leaves school, or drops below half-time enrollment, they have a period of time before they have to begin repayment. This "grace period" is generally six months, with Federal Perkins Loans having a nine month grace period. The three main repayment options are:

- **Standard Repayment** - Fixed monthly amount for a loan term of up to 10 years. There is a $50 minimum monthly payment and, depending on the amount of the loan, the loan term may be shorter than 10 years.
- **Extended Repayment** - Allows a loan term of 12 to 30 years, depending on the total amount borrowed. By stretching out the payments over a longer term, a graduate can reduce the size of each payment, but will also increase the total amount repaid over the lifetime of the loan.
- **Graduated Repayment** - Starts off with lower payments, which gradually increase every two years. The loan term is 12 to 30 years, depending on the total amount borrowed. The monthly payment can be no less than 50% and no more than 150% of the monthly payment under the standard repayment plan. The monthly payment must be at least the interest that accrues, and must also be at least $25.

POSTPONING REPAYMENT

Unfortunately, graduates are not always able to meet the repayment requirements depending on their employment situation. If they are unable to make their payments, they have two options:

- **Deferment** - A deferment is a temporary suspension of loan payments for specific situations such as reenrollment in school, unemployment, or economic hardship.
- **Forbearance** - Forbearance is a temporary postponement or reduction of payments for a period of time because if experiencing financial difficulty. One can receive forbearance if they are not eligible for a deferment. Unlike deferment, whether the loans are subsidized or unsubsidized, interest accrues, and the borrower is responsible for repaying it. The loan holder can grant forbearance in intervals of up to 12 months at a time for up to three years.

A graduate must apply to their loan servicer for either of these options, and payments must continue to be made until a postponement is granted to avoid becoming delinquent or going into default.

LOAN FORGIVENESS PROGRAMS

Under certain circumstances, the federal government will cancel all or part of an educational loan. This practice is called Loan Forgiveness, and in order to qualify, the borrower must meet specific requirements that fall within the following:

- Perform certain volunteer work;
- Perform military service;
- Teach or practice medicine in certain types of communities; or,
- Meet other criteria specified by the forgiveness program.