

Student Loans

by Sophia



WHAT'S COVERED

In this lesson, you will investigate the sources of financial aid and loans available to students. You will learn how strong technology and problem solving skills can help you review your options. Specifically, this lesson will cover:

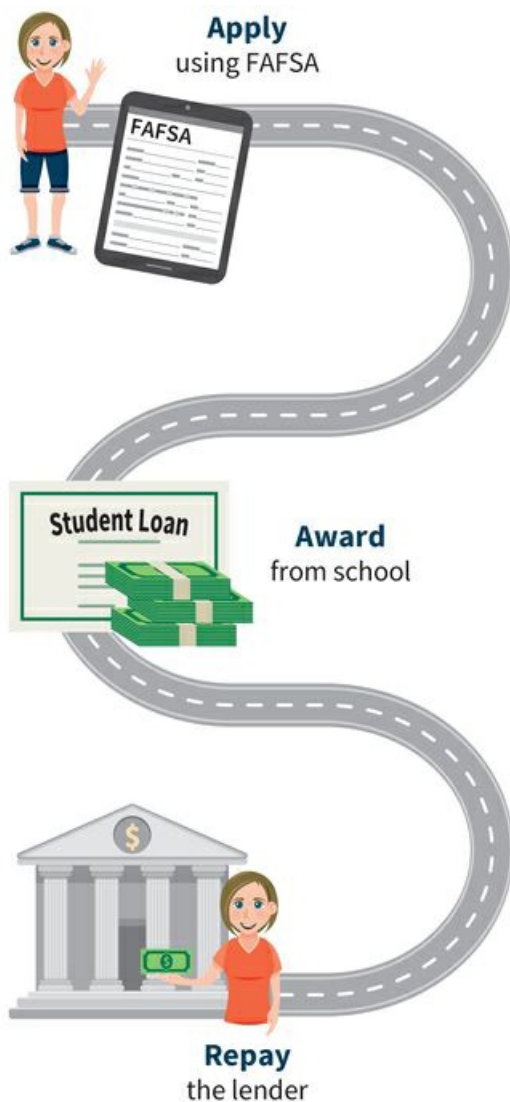
1. The Process of Obtaining Federal Financial Aid

The process of receiving federal financial aid follows the three simple steps shown in the following illustration.



STEP BY STEP

1. Application.
2. Award.
3. Repayment (if a student loan is used).



1a. Application

To determine what types of financial aid that you may receive, you must first submit a Free Application for Federal Student Aid (FAFSA) form. (Some private colleges and universities use the CSS/Financial Aid Profile® application instead of or in addition to the FAFSA form.) You can prepare and submit your FAFSA form online, or you can complete a paper version and mail the document to the U.S. Department of Education.



Technology: Skill Reflect

Do you feel comfortable enough with your technology skills to complete the FAFSA online? It is a convenient way to complete the process and it is a time saver given you don't need to rely on the postal service to deliver it on time.

One of the best places to learn about federal financial aid and the FAFSA application is the [Federal Student Aid website](#).

To complete the FAFSA form, you will generally need to supply the following:

- Information from your tax return and your parents' tax return, depending on your situation.

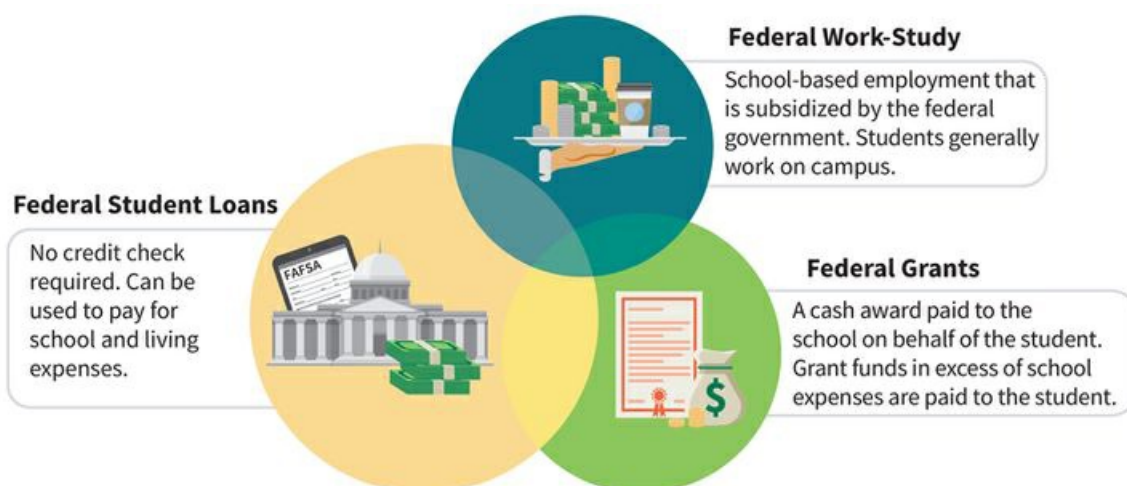
- Your assets, liabilities, and net worth, as well as your parents' balance sheet information, personal and family demographics, and other information used to determine your eligibility for special financial aid programs.
- A list of the schools that you are thinking about attending so that your application can be forwarded to them. Each school will then issue a financial aid award letter if you are accepted.

Many other financial aid organizations also use the FAFSA form when making financial aid decisions. Thus, when you complete and submit your FAFSA form to the U.S. Department of Education, you're also completing a necessary step in the application process for other financial aid packages available through your school, state, or private organizations.

1b. Award

After you've submitted your FAFSA form, you'll be notified of your financial aid award package by each of the schools where you have been accepted.

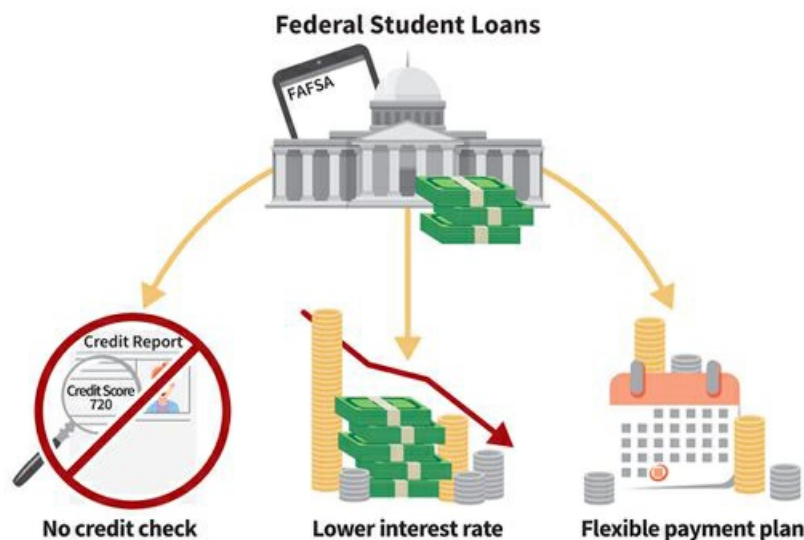
- Each school will generally offer you a different financial aid package because the costs associated with attending each school varies.
- In addition, each school may have different resources that it can use to enhance financial aid awards to prospective students.
- The illustration below shows the three main types of financial aid generally awarded. Note that the majority of financial aid awards are for student loans.



Students receiving federal financial aid awards may be awarded all three types of financial aid, or they may only receive one form of financial aid, such as access to federal student loans. Awards are based on the financial status of the student and his or her family. Keep in mind that federal work-study and grants tend to be awarded to financially needy families because they do not need to be repaid. Federal student loans, however, are another matter and require more attention and planning.

2. Federal Student Loans

Borrowing money for education directly from the federal government, rather than from private lenders, has several benefits. These advantages are shown in the following illustration.



Private student loan providers should be considered only after federal student loans have been exhausted.

For financially needy students, the federal government will pay the interest on a loan while you're in school. In addition, federal student loans can be forgiven in some situations (which we will discuss in detail later).

2a. Types of Federal Student Loans

Federal direct loans are the primary form of student financial aid. There are four types of federal direct loans:

1. **Direct subsidized loans** are federal student loans made to undergraduate students who demonstrate a financial need. If the student is enrolled in school for more than half-time, interest on these loans is paid by the federal government, making these loans the best value if you have to borrow.
2. **Direct unsubsidized loans** are made to undergraduate, graduate, and professional students. Interest on these loans is added to the loan balance until payments begin – which is usually 6 months after graduation – and interest continues to be charged as payments are made (standard loan). The annual amount a student can borrow under both the direct subsidized and direct unsubsidized loans is capped. Students don't need to show a financial need to receive these loans.
3. **Direct PLUS loans** are available to graduate and professional students. Direct PLUS loans are also available to parents of undergraduate students to help pay for education expenses more than the capped amounts available through the other federal student loan programs. Interest on the loan is added to the loan balance, or students can pay the interest only until they're no longer attending school and repayment begins. Students don't need to show financial need to receive these loans.
4. **Direct consolidation loans** allow students to consolidate all of their federal student loans into one easy-to-manage loan.



If you're in college right now, you might already have experience applying for federal student loans. What advice would you give to someone new to the process? As you think about it, watch this video to hear what one student had to say.



Direct Subsidized Loan

Federal student loans made to undergraduate students who demonstrate a financial need. As long as the student is enrolled in school for more than half-time, interest on these loans is paid by the federal government, making these loans the best value if you have to borrow.

Direct Unsubsidized Loan

Federal student loans made to undergraduate, graduate, and professional students. Interest on these loans is added to the loan balance until payments begin – which is usually 6 months after graduation. The annual amount a student can borrow is capped. Students do not need to show a financial need.

Direct PLUS Loan

Federal student loans available to graduate and professional students. Direct PLUS loans are also available to parents of undergraduate students to help pay for education expenses in excess of the capped amounts available through the other federal student loan programs. Interest on the loan is added to the loan balance, or students can pay the interest only, until they are no longer attending school and payments begin. Students do not need to show financial need.

Direct Consolidation Loan

Allows students to consolidate all of their federal student loans into one easy-to-manage loan.

2b. Repayment of Federal Student Loans

Repayment of federal student loans typically must begin within 6 months of completing school or when students are at half-time status or less. The 6-month period is referred to as the **grace period**.

- There are several different repayment plans that can be designed to fit your needs.
- The best way to minimize the interest expense on a student loan is to repay it as quickly as possible.
- One benefit associated with all types of student loans – including federal student loans – is that the interest you pay may be tax-deductible.

The Federal Student Aid website explains the variety of different options available to you as you work to repay your federal student loans.



The interest that accumulates on a student loan can really add up. But there are steps you can take to ease the burden. Watch this video to hear about a loan repayment option that can chip away at escalating interest.



Grace Period

The amount of time allowed to pay a bill without incurring interest or penalties.

3. Financial Aid in Practice

Once you have used your **technology skills** to review the Federal Student Aid website and student loan options, it is time to look at those options more closely. You will need to compare the loans to each other and review what repayment will look like.

3a. Comparing Student Loans

As was discussed above, the initial amount of financial aid awarded by a college or university is based on each institution's unique estimate of expenses in relation to the FAFSA application. Nearly all students, and their families, end up paying for tuition, room and board, and other expenses with a combination of current cash flow and student loans. Another alternative is to borrow money from a lender, such as a bank or credit union. The level of interest will be based on the credit score of the borrower. The following table compares these loan options.

	Eligibility	Interest Rate	Start of Interest	Start of Payments
Federal subsidized loan	Undergraduate student with need	4.45%	6 months after graduation as long as enrolled half-time	6 months after graduation or student drops to less than half-time
Federal unsubsidized loan	Any undergraduate, graduate, or professional student	4.45% for undergraduates; 6% for graduate/professional students	Immediately	6 months after graduation or student drops to less than half-time
PLUS loan	Graduate and professional students and parents of undergraduate students	7%	Immediately	Immediately for parents 6 months after graduation or student drops to less than half-time
Private loan	Any student or parent	Varies, but typically higher than federal or PLUS loans	Immediately	Immediately

3b. Repaying Student Loans

Obtaining a loan to help pay for college costs is one thing. Paying back the loan presents an entirely different set of challenges. There are eight possible loan repayment plans for those with a federal student loan (note that Congress and the Department of Education have indicated that some of these options may be amended in the future). The table below summarizes the important elements associated with each of these repayment alternatives.

Repayment Plan	Eligible Loans	Monthly Payment	Eligibility
Standard Plan	All loans, including consolidation loans	<ul style="list-style-type: none">Up to 10 years (30 years for consolidated loans)	All student borrowers
		<ul style="list-style-type: none">Payments start lower but increase over time	

Graduated Repayment Plan	All loans, including consolidation loans	<ul style="list-style-type: none"> Up to 10 years (30 years for consolidated loans) ♦ Payments cannot be less than the periodic interest charge and cannot be greater than three times the standard plan payment 	All student borrowers
Extended Repayment Plan	All loans, including consolidation loans	<ul style="list-style-type: none"> Up to 25 years 	Must have more than \$30,000 in direct loans
Revised Pay As You Earn (REPAYE) Plan	<ul style="list-style-type: none"> Subsidized and unsubsidized loans Direct PLUS loans to students Direct consolidated loans that do not include PLUS loans 	<ul style="list-style-type: none"> Payments limited to 10% of discretionary income Payments recalculated each year based on income and family size Total family income used to determine payment Any debt remaining after 20 or 25 years will be forgiven 	All student borrowers
Pay As You Earn (PAYE) Plan	<ul style="list-style-type: none"> Subsidized and unsubsidized loans Direct PLUS loans to students Direct consolidated loans that do not include PLUS loans 	<ul style="list-style-type: none"> Payments limited to 10% of discretionary income Payments recalculated each year based on income and family size Family income considered only if taxes are filed jointly Any debt remaining after 20 years will be forgiven 	All student borrowers whose monthly payment using the PAYE plan would be less than the 10-year standard plan
		<ul style="list-style-type: none"> Payments will be 10% to 15% of discretionary income 	

Income-Based Repayment (IBR) Plan	<ul style="list-style-type: none"> • Subsidized and unsubsidized loans • Direct PLUS loans to students • Direct consolidated loans that do not include PLUS loans 	<ul style="list-style-type: none"> • Payments recalculated each year based on income and family size • Family income considered only if taxes are filed jointly • Any debt remaining after 20 or 25 years will be forgiven 	All student borrowers whose monthly payment using the IBR plan would be less than the 10-year standard plan
Income-Contingent Repayment (ICR) Plan	All loans, including consolidation loans	<ul style="list-style-type: none"> • Monthly payment will be lesser of: <ul style="list-style-type: none"> ◆ 20% of discretionary income or ◆ Amount you would pay on a repayment plan with a fixed payment over 12 years, adjusted for income • Payments recalculated each year based on income and family size • Family income considered only if taxes are filed jointly and you repay your direct loans jointly with spouse • Any debt remaining after 25 years will be forgiven 	All student borrowers
Income-Sensitive Repayment Plan	Subsidized and unsubsidized loans	<ul style="list-style-type: none"> • Payment based on annual income • Up to 15 years 	<ul style="list-style-type: none"> • All student borrowers • Amount of monthly payments varies by lender

Notes:

1. Any amount forgiven may be taxable. Forgiven debt under the Public Service Forgiveness Program

does not trigger taxable income.

2. Student loan debt is generally not discharged upon bankruptcy.
3. Discretionary income for the Income-Based Repayment and Pay As You Earn plans is the difference between your income and 150% of the poverty guideline for your family size and state of residence. For the Income-Contingent Repayment plan, discretionary income is the difference between your income and 100% of the poverty guideline for your family size and state of residence.
4. A Public Service Loan Forgiveness (PSLF) Program exists. Those with a federal student loan who work for a public service organization may have the amount of student loans outstanding forgiven after making 120 qualifying payments. This makes the PAYE program, for example, attractive for those working for nonprofit organizations. A 501(c)(3) not-for-profit organization or a non-exempt 501(c)(3) organization provides one of the following services:
 - Emergency management
 - Military service
 - Public safety
 - Law enforcement
 - Public interest law services
 - Early childhood education
 - Public service for individuals with disabilities and the elderly
 - Public health
 - Public education
 - Public library services
 - School library or other school-based services

Source: U.S. Department of Education, Federal Student Aid; retrieved from <https://studentaid.ed.gov>.

When considering the many types of federal loans available, keep in mind that it's best if you don't have to borrow money to complete your schooling. Grants and work-study programs, as well as scholarships, provide the best source of school funding. If you do need to borrow to complete your schooling, start with direct subsidized loans and then, if necessary, consider direct unsubsidized loans. For students needing additional financial aid, direct PLUS loans can be used to add borrowing capacity.

Strong **problem solving skills** can help you decide if loans are the best option for you. It is critical that you take the time to look at alternatives to loans before you sign on any dotted line to borrow money.



BIG IDEA

Always remember that any loans you take will need to be repaid from future income, so be considerate of your future self and try to keep loan amounts as low as possible!



SUMMARY

In this lesson, you learned **the process of obtaining federal financial aid** in the form of **student loans**. There are several **types of federal student loans**, but each type involves an **application** process and determination of a financial **award**. Strong technology skills can help you with the applications. The financial status of the student's family determines the conditions of the award. The **repayment of federal student loans** generally begins 6 months after completing school. Your goal should be to pay

back the loan as quickly as possible to avoid hefty interest payments. **In practice, applying for financial aid** can get complex. Therefore, it's important to check the Federal Student Aid website when you have questions about the FAFSA form or need help **comparing student loan options**. Your strong problem solving skills can then help you make the best choice for you.

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TERMS TO KNOW

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Allows students to consolidate all of their federal student loans into one easy-to-manage loan.

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