

Federal Loans: The Smart Way To Borrow

If you don't receive enough free money to pay for college and you aren't able to cover your costs with savings or other resources, there are federal student loans. Your interest rate will be low and you'll usually have up to 10 years to repay, along with other benefits. You can get a federal loan even if you don't have financial need, and there's no credit check. There are also federal loans for parents.

Many lenders offer private loans if you've reached the federal loan borrowing limits, but keep in mind private loans usually have higher interest rates and fewer benefits. If you need to borrow, you should always take out federal loans first.

Federal Stafford Loans

Federal Stafford loans are the most common student loans and are for students with or without financial need at all types of colleges. To receive federal Stafford loan funds, you must be enrolled at least half time (as determined by your college). There are two kinds of Stafford loans:

Unsubsidized Stafford Loans

Unsubsidized Stafford loans are for all eligible students, regardless of income or assets. You must meet the requirements for federal aid (see page 5), except for demonstrating financial need. You're responsible for paying all the interest on your loan, but you can defer interest payments while in school at least half time. If you do, when repayment begins the interest will be added to the amount you borrowed and future interest costs will be based on the higher loan amount. It's to your advantage to pay the interest while you're in college because you'll pay less interest in the long run.

How to apply	First submit the FAFSA; your college's financial aid office will contact you later to sign a master promissory note and complete loan counseling
Interest rate	Fixed at 5.84% for the life of the loan (<i>Starting July 1, 2015 to July 1, 2016 the interest rate for the unsubsidized loans</i>)
Fees	Origination or federal default fees of up to 1.068% may be deducted from each loan disbursement
Repayment	begins Six months after you graduate, leave school or enroll less than half time (<i>if you're going to graduate school, you can request to defer payments until you finish your studies</i>)
Enrollment requirement	At least half time
How you'll receive loan funds	Funds are sent directly to your college to pay for tuition, fees, room and board (if applicable); the remainder will be issued to you by your college

WHAT'S ACCRUED INTEREST?

Let's say you borrow \$10,000 via an unsubsidized Stafford loan and the interest costs on the loan are about \$57 a month (that's at a fixed interest rate of 6.8 percent). You choose to defer paying the interest while you're in school for four years. The interest that accumulates is known as accrued interest. After four years, about \$2,720 in interest will have accrued. When you begin repayment, you'll owe \$12,720—the original \$10,000 plus the \$2,720 in accrued interest. The interest you'll pay during repayment will be based on this new higher amount. The process of adding interest to the amount borrowed rather than repaying it as it accrues is called "capitalization."

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	Graduate & Professional Students
Amount you can borrow per year	\$20,500
Total	\$138,500