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:

Subsidized Stafford Loans

Subsidized Stafford loans are based solely on financial need. The federal government pays the interest while you're in college and during the six-month grace period after you graduate, leave school or enroll less than half time—you'll make no loan payments until your grace period ends. To qualify, you must meet all the requirements for federal aid (see page 5).

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.

If you're an independent student, you may be eligible to receive additional unsubsidized Stafford loans to help cover unmet financial need or replace some of your EFC.

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 4.29% for the life of the loan (*Starting July 1, 2015 to July 1, 2016), the interest rate for new subsidized and unsubsidized loans taken out for undergraduate students.*
Fees	Origination or federal default fees of up to 1.068% will be deducted from each loan disbursement
Repayment	begins Six months after you graduate, leave school or enroll less than half time *(if you're going to graduate school, you can request to defer payments until you finish your studies)*
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

HOW MUCH CAN YOU BORROW?

- It depends on:
- your college's COA
- your EFC
- your year in school
- whether you attend full time or half time
- whether you're a dependent or an independent student, and
- how much other financial aid you receive.

Your loan and any other financial aid you receive, including private aid, cannot be more than your college expenses. Visit www.edfund.org/EdWise to help calculate how much you can afford to borrow and repay.

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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Year	Dependent Undergraduates*	Independent Undergraduates
First year	$5,500	$9,500
	No more than $3,500 may be in subsidized loans	
Second year	$6,500	$10,500
	No more than $4,500 may be in subsidized loans	
Third and beyond (each year)	$7,500	$12,500
	No more than $5,500 may be in subsidized loans	
Total amount you can borrow	$31,000	$57,500
	No more than $23,000 may be in subsidized loans	

** If you're a dependent student whose parents are unable to obtain a federal PLUS loan, you may be eligible to borrow the same amount in unsubsidized loans as an independent student.*