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Federal Student Loans

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What are federal student loans?

Federal student loans are loans established by the federal government and provided to students for college and graduate school.

Who can get a federal student loan?

There are eligibility requirements for federal student loans. If you have any questions about eligibility, contact the financial aid office at the college your child plans to attend. Generally, the requirements are that the student must:

- Be a U.S. citizen or eligible non-citizen
- Be enrolled at least half time at an eligible school (virtually any school offering a degree program is eligible)
- Have a high school diploma or equivalent
- Be making satisfactory progress in the selected course of study
- Have a valid Social Security number
- Not be in default on any other federal student loans
- Not have borrowed more than the allowable limits
- Have registered for the Selective Service, if a male
- Promise to use the loan money only for educational expenses

In addition to these requirements, most federal student loan programs require that you establish a financial need. A family's financial need is calculated by the Free Application for Federal Student Aid (FAFSA) form that you must complete to apply for any of the federal loan programs. This is discussed in more detail below.

How are federal student loans issued?

All federal student loans must be obtained directly from the federal government under the William D. Ford Direct Loan program. (Prior to 2010, borrowers could obtain a federal student loan either from the federal government under the Direct Loan program or from a private lender who participated in the Federal Family Education Loan (FFEL) program.) This is why they are sometimes referred to as federal direct student loans.

Applying for federal student loans

To apply for federal student loans, you must first complete the FAFSA. This single form serves as your application for all federal student aid programs. The best way to submit the FAFSA is online.

Tip: If you plan to apply for college or state financial aid, most programs require you to submit the FAFSA as well, along with the specific college or state application.

Advantages of federal student loans

Generally favorable interest rates

All federal student loans now have fixed interest rates that are typically lower than private student loans.

Generous repayment terms

Although standard terms of up to 10 years are available, several other repayment options are also available, including graduated plans, extended plans, and the increasingly popular income-driven repayment plans, which include income-based repayment (IBR), Pay As You Earn (PAYE), and Revised Pay As You Earn (REPAYE).

Grace period

Under most federal loan programs, students do not start making loan payments until six to nine months after graduation. This gives them time to find a job and start earning (and saving) income.

Deferments and forbearance periods

Most federal loan programs offer deferments or forbearance periods when a student is temporarily unable to repay a loan. For example, students may qualify for a deferment if they are back in graduate school at least half time or faced with economic hardship. A forbearance period is similar to a deferment period and may be allowed if students are unemployed and seeking employment, suffering from health problems, or having significant personal problems. The difference is that interest is not subsidized during forbearance periods; that is, it continues to accumulate, and the student is responsible for paying it.

Cancellation

If a student dies or becomes permanently disabled, he or she (or their estates) is excused from paying their federal loans.

Subsidized interest

Some federal student loans have subsidized interest. This means that the government pays all the interest that accrues while the student is enrolled at least half time in school, during the grace period, and during any authorized deferment periods.

Can borrow from multiple programs

It's possible to borrow from more than one student loan program as long as the student meets all the eligibility requirements.

Interest is tax deductible in some circumstances

The interest paid on a qualified education loan may be tax deductible, assuming income limits and other requirements are met. A qualified education loan is any debt incurred to pay the education expenses (tuition, fees, room and board) at an eligible educational institution (generally, one that offers a degree and is eligible to participate in federal student aid programs).

Disadvantages of federal student loans

Programs change frequently

The federal government makes changes to its student loan programs on a frequent and unexpected basis. Interest rates change. Forms change. Financial need requirements change. It is important to keep abreast of the changes when your child is near or at college age. Any questions can be directed to your child's high school guidance counselor or the financial aid officer at your child's college.

Borrowing limits

Federal loan programs limit the amount of money a student can borrow. Limits for individual loans are discussed in greater detail below.

Fees

There may be origination and insurance fees with some types federal student loans.

Types of federal student loans

Currently, there are three main federal student loans available: the Stafford Loan, the Perkins Loan, and the PLUS Loan. There are also a few other specialty loan programs associated with the health-care profession and federal consolidation loans.

Direct Stafford Loan

A Direct Stafford Loan is a low-interest, federal student loan made to undergraduate and graduate students who are attending school at least half-time.

Types: Stafford Loans come in two types--subsidized and unsubsidized. With a subsidized Stafford Loan, the federal government

pays the interest on the loan while the student is in school, during any deferment periods, and for six months after graduation, leaving school, or dropping below half-time. Subsidized Stafford Loans are available only to undergraduate students with financial need. With an unsubsidized Stafford Loan, students are responsible for paying the interest that accrues during the school year, the grace period after graduation, and deferment periods. All students who file the FAFSA can receive an unsubsidized Stafford Loan.

Interest rate: The interest rate on new Direct Stafford Loans is fixed for the life of the loan and resets each July. For loans issued July 1, 2016 through June 30, 2017, the interest rate is 3.76% for undergraduate students (subsidized or unsubsidized) and 5.31% for graduate students (unsubsidized only).

Borrowing limits: The Stafford Loan program has annual borrowing limits, depending on whether your child is a dependent or independent student and an undergraduate or graduate student.

Currently, annual limits for Stafford Loans for dependent undergraduate students are as follows:

- First-year student: \$5,500 (maximum \$3,500 subsidized)
- Second-year student: \$6,500 (maximum \$4,500 subsidized)
- Third-, fourth-, and fifth-year students: \$7,500 (maximum \$5,500 subsidized)

The maximum amount a dependent undergraduate can borrow is \$31,000.

Currently, annual limits for Stafford Loans for independent undergraduate students and dependent students whose parents do not qualify for a PLUS loan (defined below) are as follows:

- First-year student: \$9,500 (maximum \$3,500 subsidized)
- Second-year student: \$10,500 (maximum \$4,500 subsidized)
- Third-, fourth- and fifth-year students: \$12,500 (maximum \$5,500 subsidized)

The maximum amount an independent undergraduate can borrow is \$57,500.

Annual limits for graduate and professional students:

- Each year: \$20,500 (maximum \$8,500 subsidized)

The maximum amount a graduate or professional student can borrow is \$138,500, including undergraduate loans.

Perkins Loan

A Perkins Loan is a low-interest, federal student loan that is available to undergraduate and graduate students with the lowest expected family contributions, or EFCs. It is awarded strictly on the basis of need.

The Perkins Loan program is a campus-based program, which means the loan is available only from individual colleges, not the federal government. The Perkins Loan program is a first-come, first-served program. Each college receives a certain amount of money for this program, and once the funds are awarded, there are no more until the following year. So, even though your child may be eligible for a Perkins Loan based on your EFC, you may not receive one because the funds might be given to students with greater need or students who complete the college's financial aid paperwork ahead of you.

Tip: *Because the Perkins Loan program is a first-come, first-served program, you should apply for aid as soon as possible.*

Interest rate: The interest rate on a Perkins Loan is currently fixed at 5%. A Perkins Loan is subsidized--that is, the federal government pays the interest on the loan while a student is in college, during deferment periods, and for nine months after graduating, leaving school, or dropping below half-time.

Borrowing limits: Like the Stafford Loan, the Perkins Loan has annual borrowing limits. Undergraduates can borrow up to \$5,500 per year, with maximum loans to \$27,500. Graduate students can borrow up to \$8,000 per year, with maximum loans to \$60,000 (including undergraduate loans).

PLUS Loan

A PLUS Loan is a federal student loan made to parents and graduate/professional students with good credit histories. PLUS Loans are not based on financial need, so borrowers of all income levels can receive a PLUS Loan. The only requirement is that borrowers pass a credit check. However, parents who are delinquent up to 180 days on their home mortgage or medical debt will

still be eligible for a PLUS Loan.

Tip: Stepparents are not eligible to apply for PLUS Loans, even though their income and assets must be reported on the FAFSA.

Interest rate: The interest rate on PLUS Loans is fixed for the life of the loan and resets each July. For loans issued July 1, 2016 through June 30, 2017, the interest rate is 6.31%.

Borrowing limits: The full cost of a student's education can be borrowed, less whatever other financial aid (loans, scholarships, grants, or work-study) the student has received.

Other terms: Parents have the option of deferring repayment of their PLUS Loan for up to six months after their child has left school. In some instances, the principal and/or interest can be deferred, canceled, or considered for forbearance. The lender can explain any provisions that may apply to your situation.

Loans for health-care professionals

There are several loan programs for students studying in the health-care profession. Unlike other federal loans that are managed by the Department of Education, these loans are managed by the Department of Health and Human Services. There are two main loans:

- **Health Professions Student Loans (HPSLs):** These loans are made by schools to financially needy students pursuing degrees in medicine, osteopathy, dentistry, optometry, pharmacy, podiatry, or veterinary medicine. The interest rate is capped at 5%. HPSLs are subsidized (interest does not accrue while the student is in school or during authorized deferment periods), there is a grace period of 12 months, and there are no origination or insurance fees.
- **Nursing Student Loans (NSLs):** These loans are made by schools to financially needy students who are pursuing a course of study leading to a degree (undergraduate or graduate) in nursing. Each school can decide how much a student can borrow under the program. As with HPSLs, the interest rate is low--never more than 5%. Also, NSLs are subsidized, there is a grace period of nine months, and there are no origination or insurance fees.

Consolidation loan

A federal consolidation loan allows borrowers to consolidate several federal student loans into one loan (loans made by a state or private lender aren't eligible). The interest rate on a federal consolidation loan is fixed for the life of the loan. The rate is based on the weighted average interest rate of the loans being consolidated, rounded to the nearest one-eighth of one percent, and capped at 8.25%. As with other types of federal student loans, borrowers can choose from multiple repayment plans to repay their consolidation loan.

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