Repaying Your Student Loans

DEPARTMENT OF EDUCATION
UNITED STATES OF AMERICA
FEDERAL STUDENT AID
We Help Put America Through School

No Child

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Introduction

You've attended college or received other education beyond high school, and you received federal student loans* from the US Department of Education (ED) along the way. You're now about to deal with paying them back. You'll need to know how to manage your student loan debt to avoid repayment problems. This publication explains available repayment options so you can successfully repay your debt. It will also tell you what steps to take so you won't get behind in payments or go into default.

Federal student loans are *real* loans, just like car loans or mortgage loans. You can't just get out of repaying a student loan if your financial circumstances become difficult any more than you could get out of a car loan or mortgage, unless you qualify for bankruptcy. But, it's very difficult to have federal student loans discharged in bankruptcy; this happens only rarely. Also, you can't cancel your student loans if you didn't get the education you expected, didn't get the job you expected, or didn't complete your education, unless you leave school for a reason that qualifies you for a discharge of your loan**. **Remember, your student loans belong to you; you have to pay them back.**

**1) Federal Perkins Loans*

2) Federal Family Education Loans (FFELs), consisting of subsidized and unsubsidized Federal Stafford Loans, Federal PLUS Loans (for parents who borrow for their children), and Federal Consolidation Loans

3) William D. Ford Federal Direct Loans (Direct Loans), consisting of subsidized and unsubsidized Federal Direct Stafford/Ford Loans, Federal Direct PLUS Loans (for parents who borrow for their children), and Federal Direct Consolidation Loans

*** For example, you might have left school early because you*

1) became totally and permanently disabled. However, your condition cannot have existed before you applied for your federal loan, unless a doctor certifies that your condition substantially deteriorated since the loan was made.

2) Your school falsely certified your eligibility or signed your application or promissory note without your approval.

3) Your school closed, and you couldn't complete your program of study. In this case, you cannot have withdrawn from the school more than 90 days before it closed. (The day the school closed is defined as the day it stopped providing educational instruction in all programs.) You don't qualify for a loan discharge if you withdrew before your school closed, but you completed the program of study for which the loan was intended either by transferring academic credits or hours earned at the closed school to another school, or by any other means. Note that the state agency or other nonprofit agency that guaranteed the loan makes the final decision on whether your loan is eligible for discharge.

Notes

When do I start repaying my loan?

After you graduate, leave school, or drop below half-time enrollment at a participating school, generally you have a "grace period" before you have to begin repayment.

- For Federal Perkins Loans, the grace period is nine months.
- For FFEL Stafford Loans and Direct Stafford Loans, the grace period is six months.
- If your parents borrow a FFEL PLUS Loan or a Direct PLUS Loan for you, *there is no grace period*. The first payment on these loans is generally due within 60 days after the final loan disbursement for the period of enrollment for which your parents borrowed.

During the grace period on a subsidized loan, you don't have to pay any principal, and no interest will be charged (the federal government pays the interest). During the grace period on an unsubsidized loan, you don't have to pay any principal, but interest will be charged. You can either pay the interest or it will be capitalized (added to your principal balance).

If you should return to school at least half time before the grace period ends, you again may postpone loan repayment while you're in school, and you'll be entitled to a full grace period when you terminate enrollment or drop below half-time enrollment status. You must understand, however, that once the grace period ends, you are in repayment status and must request a deferment if you want to postpone repayment. For more on deferment, see page 19.

Effective October 1, 1998, the six-month grace period excludes a period of up to three years if you're called, or ordered, to active duty in a reserve component of the U.S. Armed Forces. The active duty must be for a period of more than 30 days and would include any period of time necessary for you to resume enrollment at the next available regular enrollment period.

When you graduated, left school, or dropped below half-time enrollment status, the financial aid administrator at your school provided counseling to inform you of your rights and responsibilities as a borrower. The aid administrator also provided information about the types of loans you received, the address where you must send your payments and the way to contact your lender, your repayment amount, repayment options and other debt management strategies, the date repayment was to begin, and the consequences of default.

At the same time the financial aid administrator provided this information, your loan holder (the financial institution you received the loan from) should have sent you information about repayment, including payment due dates. If your grace period is almost over and you haven't received this information, contact your lender as soon as possible.

Remember, though, you're responsible for beginning repayment on time, even if you don't receive this information.

Why is the amount the school told me I must repay more than the amount I actually received?

Mainly because interest accumulates on your loan. Interest is a percentage of the original loan amount (the loan principal) that's added to what you have to pay. It's a charge for using borrowed money. Everyone has to pay interest, no matter what type of loan they have; education loans are no different. The interest rate for a Federal Perkins Loan is fixed at 5 percent. The interest rate for FFEL and Direct Loans is variable but does not exceed 8.25 percent. The rate is adjusted each year on July 1. You'll be notified of interest rate changes throughout the life of your FFEL or Direct Loan.

As mentioned earlier, if you borrowed an unsubsidized loan, interest starts accruing (accumulating) from the time the funds were disbursed to you, and you're responsible for paying that interest. You chose to either pay it while you were in school or let it accrue. If you let the interest accrue, it has been "capitalized" (that is, added to your principal balance). This means the total amount you repay will be greater than if you paid the interest all along.

Also, there's a fee charged for Federal Stafford and Direct loans of up to 4 percent of the loan. This fee is deducted proportionately from each loan disbursement you received. This means the loan amount you received was less than the amount you actually borrowed. You're responsible for repaying the entire amount you borrow, however, not just the amount you received in loan disbursements.

How is interest calculated?

Interest on all loans borrowed under ED's programs is calculated on a simple daily basis. The following formula demonstrates how the simple interest is calculated between payments:

Average daily balance between payments
× Interest rate
× (Number of days between payments / 365.25)

How interest accrues between payments made on April 15 and May 15, for example:

Average daily balance:	**$10,000**
Interest rate:	**x .08**
Days between payments (30/365.25):	**x .08214**
Monthly interest:	**$65.71**

The loan holder first applies your payment to late charges or collection costs on your account (if any), then to the interest that has accumulated (accrued interest). The remainder of the payment is then applied to the principal balance. Just as the accrued interest varies monthly (depending on how many days elapse between the receipt of payments), the amount of a payment applied to accrued interest and the amount applied to principal also will vary monthly.

A breakdown of how your payments are applied should be on your billing statement. If not, ask your loan holder or servicer for that information.

How do I know where to send payments?

Before you graduated, left school, or dropped below half time enrollment status, your school should have given you information about who to repay. Also, your loan holder should be listed on your promissory note.

- You'll repay a Federal Perkins Loan to the school that made the loan or to an agency the school hires to service the loan.
- You'll repay a Direct Stafford Loan, or your parents will repay a Direct PLUS Loan, to ED's Direct Loan Servicing Center.
- Generally, you'll repay a FFEL Stafford Loan (and your parents will repay a FFEL PLUS Loan) to the lender that made the loan. Sometimes a loan holder contracts with a loan servicer to administer student loans. If that's the case, you'll make loan payments to the servicer. Also, FFEL Stafford Loans are often sold to another lender or secondary market. The loan holder is required to notify you by mail if your loan is sold and give you the name and address of the new loan holder. Even if your loan is sold—which is a common practice—your rights, responsibilities, and repayment obligation won't change.

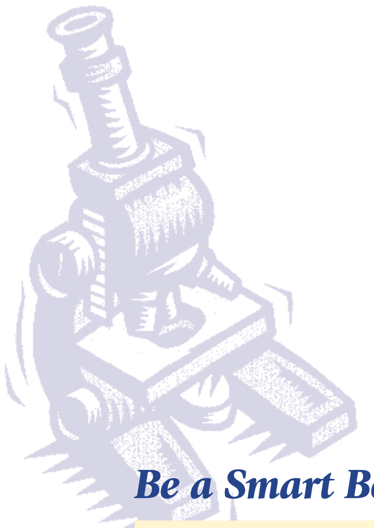
Generally, you'll receive billing statements or a coupon book from your loan holder. But, you'll have to make all payments on time even if you don't receive these.

What if I've forgotten what type of loan I have or who my loan holder is?

This information should be on the bill you receive from your loan holder. But, if you have questions about what loans you have, you can review your federal student loan history through the National Student Loan Data System (NSLDS). Note that NSLDS has information only about loans ED administers (the loans listed in the footnote on page 1 of this publication). If you obtained a private or nonfederal loan, you'll need to contact the loan holder or your school for more information. You can obtain information about your NSLDS record by contacting the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243).

You can also check NSLDS through the U.S. Department of Education's Federal Student Aid (FSA) Web site at ***www.studentaid.ed.gov*** At the site, click on "Repaying," then click on "Get Your Loan Information."

To check NSLDS, you'll need a PIN (Personal Identification Number), which is a four-digit number ED will send you. With your PIN, you can review the type and amount of the ED loans you borrowed, the status of each loan, and the name, address, and telephone number of the loan holder. If you want to receive another copy of your PIN, change your PIN, or restrict access to your personal information, go to the Web site listed above. At the site, click on "Apply for PIN," right under "My FSA" in the left column.



Be a Smart Borrower

- *Keep all your loan documents! This simple piece of advice is one of the most important. You'll have problems later if you can't find your promissory note, can't remember what type of loans you received, or don't know who you're supposed to repay or how you go about postponing (deferring) repayment if you should have financial difficulties. Keep a file of all documents connected with your loans from the time you first get a loan, so you'll always have what you need in one place. Then, you won't be confused about what you're supposed to do or who you're supposed to contact if you have questions.*
- *Whenever you talk to your lender or loan servicer, keep a record of the person you talked to, the date you had the conversation, and what was said. If you send letters, always include your loan account number, and keep copies of those letters (and the responses you receive) in your file. That way, you'll know who said what and when, which can help you avoid problems and misunderstandings.*
- *Notify your school and/or loan holder in writing if you move, change your name or Social Security Number, or reenroll in school. You must ensure your loan holder won't lose track of you. If that happens, you could miss payments and become delinquent (late). Also, your loan could be sold, and you won't know who has it or where to send payments because you couldn't be notified.*
- *Ask questions if there's something you don't understand or if you're having trouble making payments. Don't wait until things become too tough—ask for help from your loan holder or loan servicer right away!*

When repaying your student loan, you have some choices in repayment plans (for FFEL and Direct Loans) that can make repaying easier and help you avoid delinquency or default. If you're delinquent, it means you're late making a scheduled loan payment (most often, you're 30 days or more late). Default, explained in more detail on page 27, generally means you're 270 days or more late in making a loan payment. (Note that for Federal Perkins Loans, however, default is defined as the failure to make an installment payment when due or the failure to comply with other terms of your promissory note or written repayment agreement.)

Although default is more serious than delinquency, even delinquency can be reported to credit bureaus. A delinquency notation remains part of your financial history and could affect your credit rating. Repaying your loan on time will help you establish and maintain a good credit rating, which is crucial when you want to buy a car or a house, or even if you want to rent an apartment. Sometimes, your credit rating can even affect whether you'll be selected for a particular job. So, it's important to keep paying on your student loans!

What repayment plans are available?

Perkins Loans

The Federal Perkins Loan Program doesn't have a variety of repayment plans. Your monthly payment amount will depend on the size of your debt and the length of your repayment period. The minimum monthly payment is generally $40, however.

Examples of Typical Payments for Federal Perkins Loan Repayment

Total Loan Amount	Number of Payments	Monthly Payment	Total Interest Charges	Total Repaid
$3,000	90 1	$40 $4.55	$604.55	$3,604.55
$5,000	119 1	$53.06 $49.26	$1,363.40	$6,363.40
$15,000	119 1	$159.16 $150.81	$4,090.85	$19,090.85

Direct Loans

Four repayment plans are available under the Direct Loan Program. Direct PLUS Loan borrowers are eligible for all except the Income Contingent Repayment Plan.

◆ **Standard Repayment Plan**

With the Standard Repayment Plan, you'll pay a fixed amount each month until your loan is paid in full. Your monthly payments will be at least $50, and you'll have up to 10 years to repay.

The Standard Repayment Plan is good for you if you can handle higher monthly payments because you'll repay your loan more quickly. Your monthly payments will be higher than under the other plans because your loan will be repaid in the shortest possible time. Because of the 10-year limit on repayment, however, you might pay the least amount of interest.

◆ **Extended Repayment Plan**

Under the Extended Repayment Plan, you'll still have minimum monthly payments of $50, but you can take generally from 12 to 30 years to repay your loan. The length of your repayment period will depend on the total amount you owe when your loan goes into repayment.

This is a good plan if you think you'll need to make smaller monthly payments. Because the repayment period generally will be at least 12 years, your monthly payments will be less than with the Standard Plan. However, you'll end up paying more in interest because you're taking longer to pay back the loan.

◆ **Graduated Repayment Plan**

With this plan, your payments start out low, then increase in stages. You can generally take from 12 to 30 years to repay your loan. The length of your repayment period will depend on the total amount you owe when your loan goes into repayment.

This plan might be right for you if you expect your income to increase steadily over time. Your initial monthly payments will be equal to *either* the interest that accumulates on your loan between payments *or* half the payment you would make each month using the Standard Repayment Plan, *whichever is greater*. However, your monthly payments will never increase to more than 1.5 times what you would pay with the Standard Repayment Plan. As is true for the Extended Plan, you'll also pay more in interest over the life of your loan.

◆ **Income Contingent Repayment Plan**

The Income Contingent Repayment (ICR) Plan is designed to give you the flexibility to pay your loan without causing undue financial hardship. Each year, your monthly payment will be based on your adjusted gross income (AGI)—as reported on your U.S. income tax return—your family size, the interest rate, and the total amount of your Direct Loan debt.

To participate in the ICR plan, you must authorize the IRS to inform ED of your income amount. This information will be used to calculate your repayment amount, which will be adjusted annually to reflect changes in your AGI and in the interest rate on your loan.

For more information on Direct Loan repayment options, contact the Direct Loan Servicing Center at

The Direct Loan Servicing Center
Borrower Services: 1-800-848-0979 or 1-315-738-6634
Fax: 1-800-848-0984
TTY: 1-800-848-0983
www.dl.ed.gov

FFELs

There are also four repayment plans available. FFEL PLUS Loan borrowers are generally eligible for all four and might have options for additional repayment plans, depending on the lender. Also, individual lenders can tailor the FFEL repayment plans. Check with your lender for more information.

◆ **Standard Repayment Plan**
As with the Standard Repayment Plan under the Direct Loan Program, your monthly payments will be at least $50, and you'll have up to 10 years to repay.

◆ **Graduated Repayment Plan**
Under the FFEL Graduated Repayment Plan, your payments will be lower at first, then increase over time. Each payment must at least equal the interest accrued on the loan between scheduled payments. No scheduled payment amount can be more than three times greater than any other scheduled payment amount. You're generally expected to repay the loan within 10 years.

◆ **Income Sensitive Repayment Plan**
Like the Income Contingent Repayment Plan under the Direct Loan Program, the FFEL Income Sensitive Repayment Plan bases your monthly payment on your yearly income and your loan amount. As your income increases or decreases, so do your payments. Each payment must at least equal the interest accrued on the loan between scheduled payments, and no scheduled payment amount can be more than three times greater than any other scheduled payment amount.

◆ **Extended Repayment Plan**
The Extended Repayment Plan is available to new FFEL borrowers who received their first loan on or after October 7, 1998 and who have FFELs totaling more than $30,000. Under the Extended Repayment Plan, your payments will be fixed or graduated (lower at first and then increased over time) over a period of up to 25 years.

Remember, the longer your loan is in repayment, the more interest you'll pay, and the more your loan will cost you.

Can I do anything to deal with the interest?

Some loan holders offer reduced interest rates if you repay your loan using electronic debiting (allowing your bank to automatically deduct your monthly loan payments from your checking or savings account). Sometimes you can get a reduced interest rate if you make a certain number of consecutive on time monthly payments. For the FFEL Program, you should contact your lender to find out about these options. For the Direct Loan Program, call 1-800-848-0979 or visit the Web site at ***www.dl.ed.gov***

There are tax incentives for certain higher education expenses, including a deduction for student loan interest for certain borrowers. This benefit applies to federal *and* nonfederal loans taken out to pay for postsecondary education costs. The maximum deduction is $2,500 a year. IRS Publication 970, *Tax Benefits for Higher Education*, explains these credits and other tax benefits. You can find out more by calling the IRS at 1-800-829-1040. TTY callers can call 1-800-829-4059.

How do I know which repayment plan is best for me?

Although you're asked to choose a plan when you first begin repayment, you might want to switch plans later if a different plan would work better for your current financial situation. Under the FFEL Program, you can change plans once a year. Under the Direct Loan Program, you can change plans any time as long as the maximum repayment period under your new plan is longer than the time your Direct Loans have already been in repayment. You can choose the Income Contingent Repayment Plan at any time.

The tables on the next two pages can help you compare monthly payments under the different plans. The examples assume an 8.25 percent interest rate, which is the maximum rate. Your rate could be lower.

To help you figure your own repayments using an online calculator, you can go to ***www.studentaid.ed.gov*** At the site, click on the "Repaying" tab, then click on "Calculate."

Remember that you don't necessarily want to choose a plan just because it offers the lowest monthly payment. While doing so seems tempting, this might not be the best course of action. You might need more information about what you can afford before you select a plan.

*Examples of Typical Payments for Direct Loan Repayment**

	Jack borrows $5,000 in subsidized Direct Stafford Loans to finance an associate's degree in auto repair. After graduation, he obtains employment as a mechanic earning $17,000 a year.	**Darrell** borrows $10,000 in unsubsidized Direct Stafford Loans to finance a bachelor's degree in secondary education. After graduation, he obtains a teaching job in a high school earning $23,000 a year.	**Latitia** borrows $20,000 in Direct Stafford Loans ($8,000 in subsidized loans and $12,000 in unsubsidized loans) to finance a graduate degree in social work. After graduation, she begins working for the state earning $27,000 a year.
Standard			
Repayment Period	120 payments (10 years)	120 payments (10 years)	120 payments (10 years)
Starting Monthly Payment	$61	$123	$245
Interest Paid	$2,359	$4,718	$9,437
Total Amount Paid	$7,359	$14,718	$29,437
Extended			
Repayment Period	144 payments (12 years)	180 payments (15 years)	240 payments (20 years)
Starting Monthly Payment	$55	$97	$170
Interest Paid	$2,893	$7,464	$20,898
Total Amount Paid	$7,893	$17,464	$40,898
Graduated			
Repayment Period	144 payments (12 years)	180 payments (15 years)	240 payments (20 years)
Starting Monthly Payment	$35	$69	$138
Interest Paid	$3,649	$9,176	$24,427
Total Amount Paid	$8,649	$19,176	$44,427
Income Contingent**			
Repayment Period	300 payments (25 years)	211 payments (17 years, 7 months)	183 payments (15 years, 3 months)
Starting Monthly Payment	$35	$85	$182
Interest Paid	$7,991	$9,576	$15,975
Total Amount Paid	$12,051	$19,576	$35,975

* *Because interest rates are variable and change yearly, this table assumes the maximum interest rate of 8.25 percent. Interest rates are often lower than the maximum, however, so your repayment amounts could be less than shown here. Interest rates change each July 1, so check annually to find out the current rate.*

** *The calculation for Income Contingent Repayment assumes a 5 percent annual income growth. Your income might grow at a different rate, which would affect the amount of your monthly payment and total payment.*

*Examples of Typical Payments for FFEL Repayment**

	Shawna borrows $7,500 in subsidized Federal Stafford Loans to finance a bachelor's degree in geology. After graduation, she obtains employment with a museum earning $20,000 a year.	**José** borrows $15,000 in unsubsidized Federal Stafford Loans to finance a bachelor's degree in music. After graduation, he obtains a job as a voice instructor earning $25,000 a year.	**Cristina** borrows $30,000 in Federal Stafford Loans ($20,000 in subsidized loans and $10,000 in unsubsidized loans) to finance a law degree. After graduation, she begins working for the district attorney's office earning $31,000 a year.
Standard			
Repayment Period	120 payments (10 years)	120 payments (10 years)	120 payments (10 years)
Monthly Payment	$92	$184	$368
Interest Paid	$3,539	$7,077	$14,155
Total Amount Paid	$11,039	$22,077	$44,155
Extended			
Repayment Period	Not available**	Not available**	180 payments (15 years)
Starting Monthly Payment			$206
Ending Monthly Payment			$418
Interest Paid			$27,840
Total Amount Paid			$57,840
Graduated			
Repayment Period	120 payments (10 years)	120 payments (10 years)	120 payments (10 years)
Starting Monthly Payment	$52	$103	$206
Ending Monthly Payment	$107	$214	$428
Interest Paid	$4,008	$8,015	$16,031
Total Amount Paid	$11,508	$23,015	$46,031
Income Contingent**			
Repayment Period	132 payments (11 years)	132 payments (11 years)	132 payments (11 years)
Starting Monthly Payment	$67	$103	$206
Ending Monthly Payment	$90	$184	$368
Interest Paid	$4,068	$8,315	$16,630
Total Amount Paid	$11,568	$23,315	$46,630

** Because interest rates are variable and change yearly, this table assumes the maximum interest rate of 8.25 percent. Interest rates are often lower than the maximum, however, so your repayment amounts could be less than shown here. Interest rates change each July 1, so check annually to find out the current rate. Note that amounts might differ under the Extended, Graduated, and Income Sensitive plans because each FFEL lender might have a different approach in setting up these plans.*

***The Extended Repayment Plan is available only to new FFEL borrowers who received their first loan on or after October 7, 1998, and who have FFELs totaling more than $30,000.*

How can I figure out what I can afford?

To get a handle on your expenses, preparing a monthly budget once you leave school can help you identify how you spend money so you can track your spending to make sure it stays within certain guidelines. A budget can also help you see how much of your loan you can repay each month. You might be able to afford larger monthly loan payments than you thought, or your budget could show that you need to cut back on nonessential spending.

The budget planning worksheet on page 15 can help you determine your expenses and estimate your total available income. Your budget should be as detailed and as accurate as possible, so add to that worksheet, create your own, or go to ***www.studentaid.ed.gov*** to use an online calculator. Select "Repaying," then click on "Calculate."

Income

To begin preparing your budget, collect your pay stubs and bank statements. Your net monthly salary is what's left after state and federal taxes, Social Security, Medicare (FICA), and any other deductions are taken from your gross pay. You can probably estimate that 25 to 30 percent of your salary will go to taxes and Medicare. So, to figure your net monthly salary, multiply your gross monthly amount by .75 or .70.

Next, add any other sources of income you might have, such as interest income or contributions from family members. Don't forget nontaxable income such as Veterans Benefits.

Expenses

Next calculate your expenses. If you don't already know your housing arrangements and you're single, consider whether you'll live alone or with roommates to cut down on expenses. Estimate the cost of housing in the area where you expect to live by calling rental properties to get an idea of the amount of rent you'll pay or the average cost to buy a house.

If you rent, and your utilities (electricity, telephone, water) are not already included, get an estimate from the rental properties you check. If you're already paying these costs, collect some bills for a few months to get an idea of the average monthly amount you're paying. When you budget for telephone bills, don't forget your cell phone, if you have one, and any long distance calls.

For food expenses, keep a weekly record for a few weeks to a month to see what you're spending for groceries, and what items you're buying. Do the same for personal expenses such as laundry, toiletries such as shampoo or cosmetics, eating out, and entertainment. You can see if there's a way to cut down on buying some items or a way to buy less expensive ones.

When budgeting for transportation costs, consider whether you need to drive to work or whether it would be possible (and perhaps less expensive) to take the subway or bus. You'll probably still need to budget for a car, which would include gas, maintenance, insurance, and repairs. You might need to add parking fees if you drive to work.

Budgeting for health care expenses is a good idea so you can cover expenses your health insurance might not. You might not need to spend on health care each month, but the money will be there if you need it.

If you're caring for a child or for an older person, figure in the cost of expenses such as day care or home health care, if necessary.

Obviously, you'll have to budget for other debts you might have, including credit card debt. Here is an area where you might be able to save some money. Interest on credit cards often builds up quickly, so people spend much more for a purchase than the original price. Paying more than the minimum due on credit cards can help pay them off sooner, providing more funds for other unavoidable expenses—like your student loan debt!

By trying to cut nonessential expenses, you might also be able to set some money aside for emergencies, or just to put into a savings account. Having some extra funds—if possible—is helpful for unexpected expenses.

If, after preparing your budget, you find your finances are tight, your loan holder can help you identify the repayment plan requiring the lowest monthly payment amount; you can use this plan until your economic situation improves.

If your total resources are greater than your total expenses, you might select a loan repayment option with a higher monthly payment. That way, your loan will be paid off sooner, which will reduce the total amount of interest you pay. You can also reduce your total interest by sending payments larger than required. This is called making a prepayment, and you can do this at any time and won't be charged a fee for doing so.

Budget Planning Worksheet

Estimated Income	Monthly Amount	Estimated Expenses	Monthly Amount
Income Sources		**Housing**	
• Net Salary		• Rent/Mortgage	
• Interest Income		• Gas/Electricity	
• Investment Income		• Water	
• Family		• Telephone/cell phone	
• Other		**Food**	
Non-Taxable Income		• Buying lunch at work	
• TANF*		**Transportation**	
• Veterans Benefits		• Car payment	
• Social Security		• Car repair	
• Other		• Car insurance	
		• Bus	
		• Subway	
		• Other	
		Health	
		• Doctors	
		• Insurance	
		• Prescriptions	
		• Other	
		Dependent Care	
		• Child care	
		• Elder care	
		Personal/Miscellaneous	
		• Clothing	
		• Laundry	
		• Dry Cleaning	
		• Personal items (shampoo, cosmetics, etc.)	
		• Other	
		Entertainment	
		• Movies	
		• Concerts	
		• Eating out	
		• Other	
		Debt Obligations	
		• Student Loans	
		• Credit Cards	
		• Other	
		Emergencies	
Total Income		**Total Expenses**	

**Temporary Assistance for Needy Families*

Notes

I'm having problems making repayments. What can I do?

First, contact your lender or loan servicer right away if you think you're going to have trouble making payments. Don't wait until you get behind! Your loan holder can look at your situation and offer several options to help you, including consolidation, deferment, and forbearance, as well as a choice of repayment plans, as discussed in the previous section.

Consolidation

What is consolidation?

Consolidation allows you to simplify the repayment process by combining several types of federal education loans into one loan, so you make just one payment a month. Also, that monthly payment might be lower than what you're currently paying.

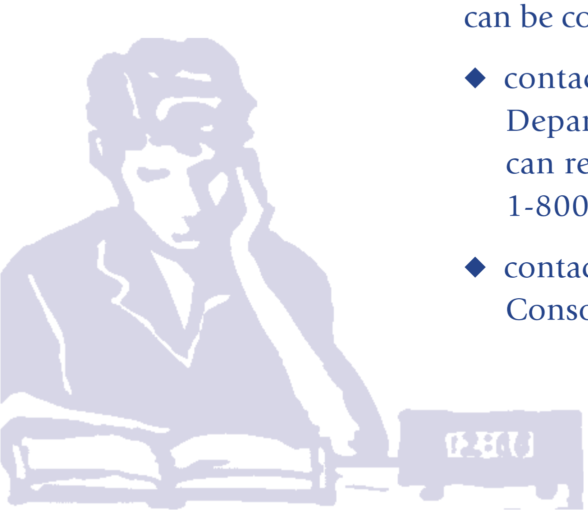
You can get a Direct Consolidation Loan, available from ED, or a Federal (FFEL) Consolidation Loan, available from participating FFEL lenders. Under either program, the loan holder pays off the existing loans and makes one Consolidation Loan to replace them. If you have subsidized and unsubsidized loans, they'll be grouped accordingly when you consolidate so you won't lose your interest subsidy on the subsidized loans.

There are three categories of Direct Consolidation Loans: Direct Subsidized Consolidation Loans, Direct Unsubsidized Consolidation Loans, and Direct PLUS Consolidation Loans. If you have loans from more than one category, you still have only one Direct Consolidation Loan and make only one monthly payment.

Under the FFEL Program, you can receive a Subsidized and/or an Unsubsidized FFEL Consolidation Loan, depending on the types of loans you're consolidating. (FFEL PLUS Consolidation Loans are included under the Unsubsidized FFEL Consolidation Loan category.)

You can also consolidate Federal Perkins Loans and other federal education loans. To get a complete list of the kinds of federal student loans that can be consolidated

- contact the Direct Loan Origination Center's Consolidation Department if you're applying for a Direct Consolidation Loan. You can reach them by calling 1-800-557-7392. TTY users can call 1-800-557-7395. Or visit **www.loanconsolidation.ed.gov**
- contact a participating FFEL lender if you're applying for a FFEL Consolidation Loan.



Note that for parent borrowers who want to apply for a FFEL PLUS Consolidation Loan, no credit checks are required. To apply for a Direct PLUS Consolidation Loan, parent borrowers are subject to a check for adverse credit history.

Under FFEL consolidation, if the same holder holds all the loans you want to consolidate, you must obtain your consolidation loan from that holder, unless you haven't been able to get a loan with income-sensitive repayment terms.

To get a Direct Consolidation Loan, you must consolidate at least one Direct Loan or FFEL. If you don't have a Direct Loan, but you have a FFEL, you must first contact a FFEL lender that makes FFEL Consolidation Loans to ask about obtaining a FFEL Consolidation Loan. If you can't get such a loan, or you can't get one with income-sensitive repayment terms acceptable to you, *and* you're eligible for the Direct Loan Income Contingent Repayment Plan (see page 8), you can apply for a Direct Consolidation Loan.

Even if you're in default, you might be eligible for a Consolidation Loan if certain conditions are met. Talk to your loan holder(s).

What's the interest rate on a Consolidation Loan?

As of February 1, 1999, both FFEL and Direct Consolidation Loans have the same interest rate, which is a fixed rate set according to a formula established by law. The rate is the weighted average rate of the current rates charged on the loans being consolidated, rounded up to the nearest one-eighth of a percent. This means the rate you'll pay won't be more than one-eighth of a percent more than the effective rate on your individual loans. The rate is fixed for the life of the Consolidation Loan.

Before February 1, 1999, Consolidation Loans had variable interest rates. For information on interest rates for these loans, contact the Direct Loan Origination Center's Consolidation Department by calling 1-800-557-7392, if you have a Direct Consolidation Loan, or check with your lender if you have a FFEL Consolidation Loan.

If you have a Stafford Loan made on or after July 1, 1995, you can reduce your consolidation rate by up to half a percentage point or more if you can consolidate before the end of your grace period.

What's the repayment period for Consolidation Loans?

You'll have from 10 to 30 years, depending on the amount of your debt and the repayment option you choose.

What are my repayment options?

All the FFEL Stafford Loan repayment plans (see page 9) are available to FFEL Consolidation Loan borrowers. For Direct Consolidation Loan borrowers, the Direct Loan repayment plans listed on page 8 generally are available, except that Direct PLUS Consolidation Loans are not eligible to be repaid under the Income Contingent Repayment Plan or might not be eligible for some discharge/cancellation benefits.

So, consolidation seems like the way to go.

It might be, but although consolidation can simplify loan repayment and might lower your monthly payment, you should carefully consider whether you want to consolidate all your loans. For example, you might lose some discharge (cancellation) benefits if you include a Federal Perkins Loan in a FFEL Consolidation Loan or Direct Consolidation Loan. If that's the case, you might want to consolidate only your FFELs or only your Direct Loans and not your Federal Perkins Loan(s). Also, you wouldn't want to lose any borrower benefits offered under your existing nonconsolidated loans, such as interest rate discounts or principal rebates, which can significantly reduce the cost of repaying your loans.

You can have a longer period of time to repay your consolidation loan than you do for the individual student loans you're repaying, but this means you'll also pay more interest over time. In fact, consolidation can double total interest expense. If you don't need monthly payment relief, you should compare the cost of repaying your unconsolidated loans against the cost of repaying a consolidation loan. To help you figure the costs, contact your lender or loan servicer, or use the online calculator you can find at ***www.studentaid.ed.gov*** At the site, click on the "Repaying" tab, then click on "Calculate."

Once made, consolidation loans can't be unmade because the loans that were consolidated have been paid off and no longer exist. So, take the time to study your consolidation options before you apply.

For more details on loan consolidation, contact your loan holder or servicer.

Deferment

What is deferment?

Deferment is a postponement of repayment under various, specific circumstances (see the chart on the next page).

- For Federal Perkins Loans, subsidized FFEL Stafford Loans, and subsidized Direct Stafford Loans, you don't have to pay principal or interest during deferment.
- For unsubsidized FFEL Stafford Loans, unsubsidized Direct Stafford Loans, FFEL PLUS Loans, and Direct PLUS Loans, you can postpone paying principal, but you (or your parents, for PLUS Loans) are responsible for the interest. You can pay the interest during the deferment period, or the loan holder can capitalize the interest when the deferment ends. Remember that capitalization will increase the loan balance.

The deferments listed on the next page apply to all Federal Perkins Loan borrowers and to Direct Loan borrowers and FFEL borrowers who received their first loan on or after July 1, 1993. Other deferments might also be available if you have an outstanding balance on a federal student loan made before July 1, 1993. For more information, FFEL Stafford Loan borrowers should contact their lenders or agencies. Direct Stafford Loan borrowers can contact the Direct Loan Servicing Center at

The Direct Loan Servicing Center
Borrower Services: 1-800-848-0979 or 1-315-738-6634
Fax: 1-800-848-0984
TTY: 1-800-848-0983
www.dl.ed.gov

Schools must automatically defer your Federal Perkins Loans during the time you perform any service that qualifies you for loan cancellation (see page 24 for service cancellations.)

Loan Deferment Summary

Deferment Condition	Direct Loans[1,2]	FFELs[1,3]	Perkins Loans
At least half time study at a postsecondary school	YES	YES	YES
Study in an approved graduate fellowship program or in an approved rehabilitation training program for the disabled	YES	YES	YES
Unable to find full-time employment	Up to 3 years	Up to 3 years	Up to 3 years
Economic hardship	Up to 3 years[4]	Up to 3 years[4]	Up to 3 years[4]
Engages in service listed under discharge/cancellation conditions (see pages 23 and 24)	NO	NO	YES[5]

[1] *For PLUS Loans and unsubsidized student loans, only principal is deferred. Interest continues to accrue.*

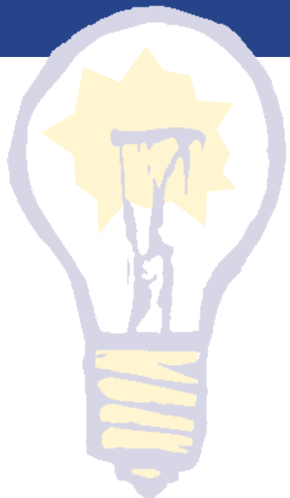
[2] *Direct Loan borrowers who have outstanding balances on FFEL Loans disbursed prior to July 1993, might be eligible for additional deferments, provided the outstanding balance on the FFEL existed when the borrower received his or her first Direct Loan.*

[3] *Applies to loans first disbursed on or after July 1, 1993, to borrowers who have no outstanding FFELs or Federal Supplemental Loans for Students (Federal SLS Program) on the date they signed their promissory note. (Note that the Federal SLS Program was repealed beginning with the 1994-1995 award year.)*

[4] *Many Peace Corps volunteers will qualify for a deferment based on economic hardship.*

[5] *More information on teaching service deferments can be found on the Internet at* ***www.studentaid.ed.gov****. At the site, Click on "Repaying," then click on "Cancellation and Deferment Options for Teachers."*

In most cases, you aren't just granted a deferment automatically; you must formally request one through the procedures your loan holder has established. Often, you need to complete a deferment form. You'll need to provide documentation showing you're qualified for the deferment you're applying for. Make sure all your paperwork is in order and make sure the loan holder receives it.



Here's one of the most important things to remember: **You must continue to make payments on the loan until you've been notified the deferment has been approved.** Sometimes borrowers apply for deferment and don't hear anything back and assume things are fine. Or, as soon as they send a deferment form and their paperwork, they think they can immediately stop payment. Even if the paperwork is received without any problem, it takes a while to process. So, don't skip the next payment when it's due. First, check with the loan holder. If your deferment has not been processed, make your payment! You might go into default otherwise. **You can't get any deferment on a defaulted loan.**

Forbearance

What is forbearance?

If you find you can't meet your repayment schedule but you're not eligible for a deferment, you might be granted forbearance for a limited and specified period. During forbearance, your payments are temporarily postponed or reduced. Forbearance can also be an extension of the time you have to repay your loan. Unlike deferment, whether your loans are subsidized or unsubsidized, you'll be charged interest during forbearance. If you don't pay the interest as it accrues, it will be capitalized.

As is true with deferment, you aren't just granted forbearance automatically; you must formally request one from your loan holder. You might have to provide documentation to support your request.

You might be granted forbearance if you are

- unable to pay due to poor health or other unforeseen personal problems.
- serving in a medical or dental internship or residency.
- serving in a position under the National Community Service Trust Act of 1993 (forbearance can be granted for this reason for a Direct or FFEL Stafford Loan, but not for a PLUS Loan).
- obligated to make payments on certain federal student loans that are equal to or greater than 20 percent of your monthly gross income.

This is not a complete list of conditions that might qualify you for forbearance. For more information, contact your loan holder.

Unlike deferment, which you're entitled to receive, the loan holder does not have to grant forbearance except in certain mandatory circumstances (check with your loan holder for details). In most cases, however, lenders are willing to work with you if you show you're willing but temporarily unable to repay your debt.

Notes

Loan Discharge (Cancellation)

In some cases, your federal student loan can be discharged (canceled). A discharge releases you from all obligation to repay the loan. Lists of cancellation provisions for FFEL/Direct Loans and Federal Perkins Loans are given on this page and the next.

Your loan can't be discharged because you didn't complete the program of study at the school (unless you couldn't complete the program for a valid reason—see page 1), you didn't like the school or the program of study, or you didn't get a job after completing the program of study.

For more information about discharge, contact the Direct Loan Servicing Center by calling 1-800-848-0979 if you have a Direct Loan. If you have a FFEL, contact the lender or agency that holds your loan. If you have a Federal Perkins Loan, contact the school that made you the loan.

Direct Loan and FFEL Discharge/Cancellation Summary

Cancellation Conditions	Amount Forgiven	Notes
Borrower's total and permanent disability[1] or death	100%	For a PLUS Loan, includes death but not disability of the student for whom the parents borrowed.
Full-time teacher for five consecutive years in a designated elementary or secondary school serving students from low-income families	Up to $5,000 of the aggregate loan amount that is outstanding after completion of the fifth year of teaching. A borrower might qualify for loan forgiveness under the Direct Consolidation and the FFEL Consolidation Loan programs. If so, only the portion of the consolidation loan used to repay Direct Stafford Loans or FFEL Stafford Loans qualifies.	For Direct and FFEL Stafford Loans received on or after October 1, 1998, by a borrower with no outstanding loan balance as of that date. At least one of the five consecutive years of teaching must occur after the 1997-98 academic year. (To find out whether your school is considered a low-income school, visit **www.studentaid.ed.gov.** Click on "Repaying," then click on "Cancellation and Deferment Options for Teachers." Or, call 1-800-4-FED-AID.)
Bankruptcy (in rare cases)	100%	Cancellation is possible only if the bankruptcy court rules that repayment would cause undue hardship.
Closed school (before student could complete program of study) or false loan certification	100%	For loans received on or after January 1, 1986.
School does not make required return of loan funds to the lender	Up to the amount that the school was required to return.	For loans received on or after January 1, 1986.

[1] *Beginning July 1, 2002, a borrower who is determined to be totally and permanently disabled will have his or her loan placed in a conditional discharge period for three years from the date the borrower became totally and permanently disabled. During this conditional period, the borrower doesn't have to pay principal or interest. If the borrower continues to meet the total-and-permanent disability requirements during, and at the end of, the three-year conditional period, the borrower's obligation to repay the loan is canceled. If the borrower doesn't continue to meet the cancellation requirements, the borrower must resume payment. Total and permanent disability is defined as the inability to work and earn money because of an injury or illness that is expected to continue indefinitely or to result in death. More information on this discharge can be found in the promissory note and by contacting the loan holder.*

Perkins Discharge/Cancellation Summary[1]

Cancellation Conditions	Amount Forgiven	Notes
Borrower's total and permanent disability[2] or death	100%	Service qualifies for deferment also.
Full-time teacher in a designated elementary or secondary school serving students from low-income families	Up to 100%	Service qualifies for deferment also.
Full-time special education teacher (includes teaching children with disabilities in a public or other nonprofit elementary or secondary school)	Up to 100%	Service qualifies for deferment also.
Full-time qualified professional provider of early intervention services for the disabled	Up to 100%	Service qualifies for deferment also.
Full-time teacher of math, science, foreign languages, bilingual education, or other fields designated as teacher shortage areas	Up to 100%	Service qualifies for deferment also.
Full-time employee of a public or nonprofit child- or family-services agency providing services to high-risk children and their families from low-income communities	Up to 100%	Service qualifies for deferment also.
Full-time nurse or medical technician	Up to 100%	Service qualifies for deferment also.
Full-time law enforcement or corrections officer	Up to 100%	Service qualifies for deferment also.
Full-time staff member in the education component of a Head Start Program	Up to 100%	Service qualifies for deferment also.
Vista or Peace Corps volunteer	Up to 70%	Service qualifies for deferment also.
Service in the U.S. Armed Forces	Up to 50% in areas of hostilities or imminent danger	Service qualifies for deferment also.
Bankruptcy (in rare cases)	Up to 100%	Cancellation is possible only if the bankruptcy court rules that repayment would cause undue hardship.
Closed school (before student could complete program of study)	100%	For loans received on or after January 1, 1986.

[1] *As of October 7, 1998, all Perkins Loan borrowers are eligible for all cancellation benefits regardless of when the loan was made or the terms of the borrower's promissory note. However, this benefit is not retroactive to services performed before October 7, 1998.*

[2] *Beginning July 1, 2002, a borrower who is determined to be totally and permanently disabled will have his or her loan placed in a conditional discharge period for three years from the date the borrower became totally and permanently disabled. During this conditional period, the borrower doesn't have to pay principal or interest. If the borrower continues to meet the total-and-permanent disability requirements during, and at the end of, the three-year conditional period, the borrower's obligation to repay the loan is canceled. If the borrower doesn't continue to meet the cancellation requirements, the borrower must resume payment. Total and permanent disability is defined as the inability to work and earn money because of an injury or illness that is expected to continue indefinitely or to result in death. For more information on qualifying for this discharge, review your promissory note and contact your loan holder.*

More information on teaching service cancellation/deferment options can be found at ***www.studentaided.gov****. At the site, click on "Repaying," then on "Cancellation and Deferment Options for Teachers."*

Are there any other options?

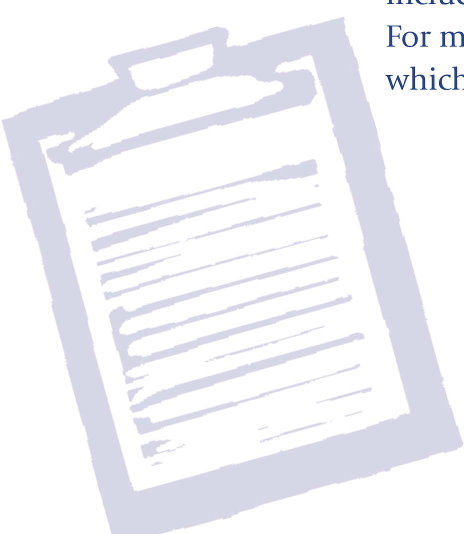
Your state might offer programs that cancel or reduce part of your loan for certain types of service you perform (such as teaching or nursing). Contact your state agency for postsecondary education to see what programs are available in your state. For the address and telephone number of your state agency, call the Federal Student Aid Information Center at 1-800-4-FED-AID (1-800-433-3243). You can also find this information at ***www.studentaid.ed.gov*** At the site, click on the "Funding" tab, then go to "State Aid."

You should also contact professional, religious, or civic organizations to see if any benefits would be available to you.

Although not a loan cancellation, some branches of the military offer loan repayment programs as an incentive for service. Check with your local recruiting office for more information.

Another type of repayment assistance (again, not a discharge) is available through the Nursing Education Loan Repayment Program (NELRP) to registered nurses in exchange for service in eligible facilities located in areas experiencing a shortage of nurses. All NELRP participants must enter into a contract agreeing to provide full-time employment in an approved eligible health facility (EHF) for 2 or 3 years. In return, the NELRP will pay 60 percent of the participant's total qualifying loan balance for 2 years or 85 percent of the participant's total qualifying loan balance for 3 years. For more information, call NELRP, toll-free, at 1-866-813-3753 or visit ***www.bhpr.hrsa.gov/nursing/loanrepay.htm***

The AmeriCorps Program allows participants to earn education awards—including money to repay student loans—in return for national service. For more information, contact the Corporation for National Service, which administers the AmeriCorps Program:



Corporation for National Service
1201 New York Avenue NW
Washington, DC 20525

1-800-94-ACORPS (1-800-942-2677)
202-606-5000
TTY: 202-565-2799

Web site: www.americorps.org
E-mail: Questions@americorps.org

Some federal agencies will repay all or part of a borrower's federal student loans, including the U.S. Department of Defense, the U.S. Department of Health and Human Services, and the Corporation for National Service. ED has no jurisdiction over these non-ED programs. If you work for a federal agency, check with that agency to see if it participates.

Notes

We've discussed ways to help you meet your loan repayment obligation. Explore all the options you can—the last thing you want to do is default.

What is default?

For a Federal Perkins Loan, default occurs if you don't make an installment payment when due or don't comply with the promissory note's other terms. Default for a FFEL or Direct Loan occurs if you become 270 days delinquent (if you're making monthly payments) or 330 days delinquent if you pay less often than monthly.

What happens if I default?

The consequences of default are severe:

- The *entire* loan balance (principal and interest) can be immediately due and payable.
- You'll lose your deferment options.
- You won't be eligible for additional federal student aid.
- Your account might be turned over to a collection agency. If so, you'll have to pay additional interest charges, late fees, collection costs, and possibly court costs and attorney fees. These costs will really add up, and it will take you even longer to pay off your student loan.
- As mentioned earlier, your account will be reported to national credit bureaus, and your credit rating can be damaged. You might find it very difficult to receive other types of credit, such as credit cards, car loans, or mortgages. Because many landlords do credit checks, it might be hard to rent an apartment. Some employers check to see if you're responsible by looking at your credit rating, so bad credit could even affect getting a job. On top of this, your default will remain on your credit report for up to *seven years.*
- Your federal income tax refunds (and in some states, your state income tax refunds) might be withheld and applied toward your loan repayment. This happens a lot to defaulters, and it can really hurt if you were counting on that refund.
- Your employer, at the request of the loan holder, may withhold (garnish) part of your wages.
- You might be unable to obtain a professional license in some states.

Do these sound serious? They are, so don't let any of them happen to you! Make sure to contact your lender as soon as you think you might have trouble making payments. Don't ignore any calls or letters from your lender or servicer, either. Putting things off is never the answer because these loans won't go away; talk to your lender and discuss all the options for making payment easier that you've seen in this booklet. Get the details from your lender/servicer on how you can benefit from these options. Don't default!

Notes

- A loan, unlike a grant, is borrowed money that must be repaid.
- You must repay your loan even if you didn't like the education you received or you can't obtain employment after you graduate.
- You must keep the loan holder informed of a change in your name, address, telephone number, Social Security Number, or enrollment status.
- You must make payments on your loan even if you don't receive a bill or repayment notice. Billing statements are sent to you as a convenience, but you're obligated to make payments even if you don't receive any reminders.
- You can prepay the whole loan or any part of it at any time without penalty. This means you are paying some of the loan before it's due.
- If you apply for deferment, forbearance, or consolidation, you must continue to make payments on your loan until you have been notified that your request has been processed and approved.
- Your student loan account balance and status will be reported to national credit bureaus on a regular basis. Just as failing to repay your loan can damage your credit rating, repaying your loan responsibly can help you establish a good credit rating.
- The consequences of defaulting on a federal student loan are severe and long lasting.
- There are repayment options available to assist you if you're having trouble making payments.

Notes

What if I decide to return to school?

If you leave school but return for additional schooling at least half time *before* your grace period ends, you again can postpone loan repayment while you're in school, and you'll be entitled to a full grace period when you leave school or drop below half-time status. You should understand, however, that if you return to school *after* your grace period ends, you're in repayment status and must request a deferment if you want to postpone repayment.

Why didn't I receive a Federal Perkins Loan, which has a lower interest rate and more cancellation provisions, instead of a Stafford Loan?

A student who completes a *Free Application for Federal Student Aid* (FAFSA) and demonstrates financial need is automatically considered for a Federal Perkins Loan if the school the student attends participates in that program and if the student meets program eligibility requirements. You're not guaranteed aid, however, even if you're eligible. Aid is awarded based on your demonstrated need, on the other aid you receive, and on school funds available for Federal Perkins Loans. If a Perkins Loan didn't meet your financial need, you were eligible to apply for a FFEL Stafford Loan or Direct Stafford Loan.

Why do I have an outstanding balance even though I used all the coupons in my final payment coupon book?

Repayment schedules and corresponding payment coupon books are designed on the assumption that all payments will be made on time. If you do this and pay the correct amount each month, you'll pay your loan in full by the end of the repayment schedule. If you're delinquent, excess interest will accrue. You might also have collection charges or late fees. Interest also accrues during a forbearance or deferment. So, if you pay the correct monthly payment amounts but have a delinquency during repayment, you'll have an outstanding balance at the end of the repayment schedule. Similarly, if extra interest has accrued, your balance will go up. You're responsible for paying that outstanding balance.

Notes

Important Terms

borrower Person legally responsible for repaying a loan and who has signed the promissory note.

cancellation The release of borrowers from their obligations to repay all or a portion of their ED loans. Borrowers must meet certain requirements to be eligible for cancellation.

capitalized interest Unpaid, accumulated interest that is added to the loan principal. Because the principal increases, so does the total cost of the loan.

consolidation The combination of several types of federal education loans into one new loan. Consolidation simplifies loan repayment.

default Failure to repay a loan in accordance with the terms of the promissory note.

deferment The temporary postponement of loan payments; during this time, the borrower does not have to pay either principal or interest.

delinquency Failure to make payments when due, as specified in the promissory note and in the selected repayment plan. Delinquency can lead to default.

Direct Loans Loans made by the U.S. Department of Education (instead of a private lending institution) under the William D. Ford Federal Direct Student Loan Program. Direct Loans consist of Direct Subsidized Loans, Direct Unsubsidized Loans, Direct PLUS Loans, and Direct Consolidation Loans. As is true for FFELs, a student can receive a Direct Unsubsidized Loan regardless of financial need. The interest rate on Direct Subsidized, Direct Unsubsidized, and Direct Consolidation Loans is variable but does not exceed 8.25 percent. The interest rate on Direct PLUS Loans is also variable but does not exceed 9 percent. Students and parents can receive Direct Loans only if the student's school participates in the Direct Loan Program.

Direct Loan Servicing Center ED's agent that collects Direct Loans and processes payments, deferments, forbearances, and repayment options.

FFEL The "umbrella" term for the Federal Family Education Loan Program, consisting of Federal (FFEL) Stafford Loans (subsidized and unsubsidized), Federal (FFEL) PLUS Loans, and Federal (FFEL) Consolidation Loans. The interest rate on FFEL Stafford Loans and FFEL Consolidation Loans is variable but does not exceed 8.25 percent. The interest rate on FFEL PLUS Loans is also variable but does not exceed 9 percent.

forbearance Temporary postponement or reduction of payments because of the borrower's financial difficulties. A forbearance also may be an extension of the repayment period. All borrowers are charged interest during forbearance.

grace period A period of time between when the borrower graduates or drops below half-time status and when repayment begins. For a FFEL Stafford Loan or Direct Stafford Loan, the grace period is six months. During the grace period on an unsubsidized FFEL Stafford Loan or Direct Stafford Loan, interest that accrues must be paid or it will be capitalized. For a Federal Perkins Loan, the grace period is nine months. There is no grace period for a FFEL PLUS Loan, Direct PLUS Loan, or FFEL Consolidation Loan. A Direct Consolidation Loan usually has no grace period, but a borrower might be entitled to one if at least one of the loans being consolidated is a FFEL Stafford Loan or Direct Stafford Loan that is in an in-school status.

guarantor The state or nonprofit private agency that administers the Federal Family Education Loan (FFEL) Program in each state.

interest A loan expense charged a borrower for the use of borrowed money. Interest is calculated as a percentage of the principal of the loan, which includes the original amount borrowed and any capitalized interest. Accrued interest is interest that *accumulates* on the unpaid principal balance of a loan.

lender The organization that made the loan initially; the lender could be the borrower's school (for Federal Perkins Loans); a bank, credit union, or other lending institution (for FFELs), or the U.S. Department of Education (for Direct Loans).

loan holder The organization that currently "owns" the loan and to which the borrower owes repayment. Many banks sell loans, so the initial lender and the current holder could be different.

loan principal The total sum of money borrowed. Loan principal includes the original amount borrowed plus any interest that has been capitalized.

Perkins Loans Low-interest (5 percent) loans made under the Federal Perkins Loan Program to undergraduate and graduate students. Because the school is the lender, students repay the school that made the Federal Perkins Loan or to the agent the school hires to service the loan. A student must demonstrate financial need to qualify for one of these loans.

PLUS Loans Loans made to the parent of a student. Parents with good credit histories can borrow to help pay for the education expenses of a child who is a dependent undergraduate student enrolled at least half time at a participating school. There are FFEL PLUS Loans and Direct PLUS Loans. The interest rate is variable but does not exceed 9 percent.

prepayment Any amount the borrower pays before it is required to be paid under the terms of the loan's promissory note. There is never a penalty for prepaying principal or interest on U.S. Department of Education loans.

promissory note A binding legal contract between a loan holder and a borrower. The promissory note contains the loan terms and conditions, including how and when the loan must be repaid. By signing this note, the borrower agrees to repay the loan.

repayment schedule A statement the loan holder provides the borrower that lists the amount borrowed, the amount of monthly payments, and the date payments are due.

secondary market An agency that purchases student loans from originating lenders so these lenders can make additional student loans. The Student Loan Marketing Association (Sallie Mae) is an example of a secondary market. If such an organization buys the loan, that organization becomes the "loan holder"—see the previous page.

servicer An agency a school or lender employs to service (collect) a student loan account. Often, the borrower will deal with the loan servicer when there are questions about repayment. Servicers also approve deferments and forbearances on the lender's behalf.

Stafford Loans Loans made to undergraduate and graduate students under the FFEL and Direct Loan programs. Borrowers can receive FFEL or Direct Stafford Loans regardless of financial need. The interest rate is variable but does not exceed 8.25 percent.

subsidized loan A federal student loan made on the basis of the borrower's financial need and other specific eligibility requirements. The federal government pays the interest on these loans while borrowers are enrolled at least half time, during the grace period, or during authorized periods of deferment.

unsubsidized loan A federal student loan made to a borrower meeting specific eligibility requirements, but not based on financial need. The borrower is responsible for paying all interest that accrues throughout the life of an unsubsidized loan. During in-school status, deferment, and forbearance periods, the borrower may choose to pay the interest charged on the loan or allow the interest to be capitalized (added to the loan principal).

Notes

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No Child