

Student Loans 101: What You Need to Know

It All Begins With FAFSA. (In order to receive ANY federal loans, families need to fill out the FAFSA. Visit <https://studentaid.gov> to learn more.)

Types of Federal Loans

Direct Subsidized vs. Direct Unsubsidized

Subsidized

- Offered to students based on demonstrated financial need
- Interest doesn't start accruing while students are in school (begins after student drops below half-time enrollment)
- Individual schools will let you know if you qualify, and if you do, how much you qualify for

Unsubsidized

- Not considered need-based and are open to most students who file the FAFSA
- Interest starts accruing when money is issued
- Dependent students whose parents are ineligible for a Direct PLUS Loan may be able to receive additional Direct Unsubsidized Loan funds

What Are The Rates, Fees, and Borrowing Limits?

- Always a fixed rate, with the expected rate of 4.99% (expected rate for loans first disbursed on or after 7/1/22)
- 1.057% Origination Fee (Disbursement Fee)
- Undergraduate students can borrow up to \$31,000 in federal student loans for their degree. The borrowing limit per year is based on the grade level in college. The limits below are based on dependent undergraduate borrowers:
 - \$5,500—Freshman
 - \$6,500—Sophomore
 - \$7,500—Junior and Senior

Parent PLUS Loan — Apply by submitting the FAFSA

Who Can and Cannot Receive a PLUS Loan?

- Can: Parents with undergraduate students who are enrolled at least half-time and have passed a credit check
- Cannot: Undergraduates

What Are The Rates, Fees, and Borrowing Limits?

- Always a fixed rate, with the expected rate of 7.54% (expected rate for loans first disbursed on or after 7/1/22)
- 4.228% Origination Fee (Disbursement Fee)
- The maximum you can receive for a PLUS Loan is the cost of attendance, set by the school, minus any other financial aid received

Types of Private Loans

These are offered by private lenders, such as banks, credit unions, online lenders, etc.

Private Student Loans

- In the student's name, cosigner usually required (parent or credit-worthy adult)
- Typically allow you to borrow up to the full cost of attendance
- Interest rates generally based on credit profile (better credit = lower interest rate)
- Cosigners should ask about the lender's cosigner release criteria
- Most private student loans do not have origination fees
- Have a conversation with your student about how interest rates and monthly payments work

Private Parent Loans

- In the parent's name, student is not responsible
- Allow you to borrow up to the full cost of attendance
- Most private parent loans don't have origination fees
- Interest rate will be based on your credit worthiness

Steps to Getting College Loans

- 1 Fill out the FAFSA
- 2 Accept Federal Direct Student Loans first, if you need to borrow
- 3 For private student loans, check individual lenders for pre-qualification rate ranges
- 4 Make a spreadsheet to save and compare lender information
- 5 Compare pre-qualification rates, lender features, and narrow your lender list
- 6 Determine how much you need to borrow once the tuition bill comes (after financial aid and maxing out Federal Direct Student Loans)
- 7 Apply to **three to five** lenders within 30 days
- 8 Compare final rates and make a choice

Top 10 Things Your Student Should Know About Student Loans

1. **Before taking out a private loan, maximize your full federal loan eligibility.** Federal Student Loans have low fixed rates and more flexible repayment plans. They can also be taken out without a cosigner.
2. **Borrow only what you need and can reasonably afford to pay back.** Be sure to use a [student loan calculator](#) prior to applying for loans to see what your payments would be.
3. **Before freshman year begins, make a plan for the four-year cost of your education.** You may not be able to see the big picture when you're applying for loans year-to-year. Consider the total debt you'll be taking on over the course of your degree.
4. **Student loans can't be used to pay for everything.** Schools will process a private loan up to the total cost of attendance, minus any other financial aid. Non-educational expenses, such as entertainment, cannot be covered by loans.
5. **You'll owe more than you borrow.** That's because there can be loan disbursement fees and interest will accrue on the loans (except for the federal subsidized loan) while you're in school.
6. **Pay what you can while in school.** You can make payments on your loans while still enrolled. Doing so can help prevent the interest from growing on your loan balance.
7. **Loan repayment doesn't begin immediately after college graduation.** Federal loans have a six-month grace period. During the grace period, no payments are required. Most private lenders also offer a grace period, but the length depends on the terms.
8. **There are advantages to using automatic payments.** Many private lenders will offer a discount on interest if you sign up for their auto-debit service.
9. **You can refinance student loans.** Be certain to check rates after you graduate.
10. **A longer loan repayment period means you'll be paying more.** Be aware: the longer it takes to repay your loan, the more interest you'll need to pay. Use a student loan calculator to see the difference in the total loan amount you are paying back based on the number of years in your repayment term.

What to Ask Lenders:

Cosigner Release

- Is there a cosigner release?
- What are the cosigner release requirements?

Interest Rates

- What is the interest rate?
- Can I get an interest rate discount if I sign up for automatic payments?

Repayment Options & Loan Terms

- Do you assign the repayment term (how long we take to repay the loan), or do I choose?
- How many years do I have to repay the loan?
- Are there any incentives if we pay while our student is still in school?
- Are there any incentives for shorter term loans?

Prepayment Penalties

- Are there any prepayment penalties?

Hardships

- How can you help me if I face hardships?

Total Cost of Borrowing

- What will my monthly payments be? Try College Ave's [Student Loan Calculator](#).
- What will my total costs be to take out the loan and pay it back?