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Get Educated: Understanding Federal Student Loans

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Paying for college can be expensive. Student loan debt is the second highest consumer debt in the nation (Friedman, 2017). Americans owe more than $1.3 trillion in student loan debt with the average person owing around $37,172 (Friedman, 2017). The average cost of in-state tuition in Utah for the 2016-2017 academic year was $12,434 ("Utah Colleges," n.d.). Tack on the cost of books, additional fees, and room and board and the cost goes up greatly. Figuring out how to pay for college is a source of financial stress for both students and parents. Understanding financial aid options can reduce this stress. Being smart about student loans may ensure that a college graduate isn't left with a large financial burden after graduation.

Loan Options

The federal government offers financial aid to undergraduate students, graduate students or the parents of college students. These loans cover tuition, fees, room and board, and other supplies needed for college. Grants and work study programs are also available to those who quality. Most people are eligible for financial aid. Basic eligibility requirements include being a U.S. citizen or eligible noncitizen, having a valid Social Security Number, enrolling at least half time at a college or university, and filling out the FAFSA form each year ("Who Gets Aid," n.d.). For more detailed eligibility information, go to https://studentaid.ed.gov/sa/eligibility. It is important to thoroughly understand financial aid options so you can decide the best way to pay for college. On the next page is a table outlining basic information about loan options ("Federal Student Loan Programs," n.d.).

Be Smart about Student Loans

Before you apply, it is important to know what it means to accept federal financial assistance to pay for college. Federal student loans are money the federal government loans to you with the expectation that you will pay back the loan in full with interest. With interest rates varying between 4.5%-7%, the amount of your loans could be quite substantial when the time comes for repayment. You can get an idea of what your payments might look like by using the Repayment Estimator at https://studentaid.ed.gov/sa/repay-loans. Remember to accept only the amount you need for the cost of attending school. It is never a good idea to take out loans to support your lifestyle during school. Subsidizing late night pizza delivery with student loan money means you will be paying for the pizza for the next 10+ years.

Not ready to apply for federal student aid, but want to get an estimate of your eligibility? Try FAFSA4caster at https://studentaid.ed.gov/sa/fafsa/estimate. Parents can also use this tool to help establish college funding strategies for their future college students ("Estimate Your Aid," n.d.).

	Who can get this loan?	How much can you borrow?	Who determines the amount of the loan?	What is the interest rate? (As of 2018)	Who pays the interest?
Direct Subsidized Loans	Undergraduate students that demonstrate financial need.	Between $5,500-$12,500 per year in both Direct Subsidized and Direct Unsubsidized Loans.	The college or university you are attending.	4.45%	The government while you are in school at least half time and for the first 6 months after you leave school and also during a period of deferment. You begin payment of the interest after that time.
Direct Unsubsidized Loans	Undergraduate and graduate students. You don't have to demonstrate financial need.	For undergraduates, between $5,500-$12,500 per year in both Direct Subsidized and Direct Unsubsidized Loans. For graduates, up to $20,500 per year.	The college or university you are attending.	4.45% for undergraduate students. 6% for graduate or professional students.	You pay the interest at all times during the loan period.
Direct PLUS Loans	Parents of dependent students and graduate students.	For parents, the amount is based on the cost of attendance and other financial aid your child receives. For graduate students, any other college costs not covered by other financial aid. A credit check is required.	The college or university you are attending.	7%	You pay the interest at all times during the loan period.
Federal Perkins Loans	Undergraduate, graduate, and professional students with exceptional financial needs that attend a school that participates in the program.	Undergraduates can receive up to $5,500 per year for a total of $27,500. Graduate and professional students can receive up to $8.000 per year with a total of $60,000. Your school is the lender on this loan.	The college or university you are attending.	5%	The government pays the interest while you are in school at least half time and for the first 6 months after you leave school and during a period of deferment. You begin payment of the interest after that time.

Don't Miss Out

Up to 2 million students a year miss out on aid because they do not apply (Rosata, 2018). The application is free and there is no obligation to take the aid you are qualified to receive. Remember, loans are not the only financial aid opportunities. Grants, money you don't have to pay back, and work study, paid jobs on campus, are also options you may receive ("Types of Aid," n.d.). Why would you pass up the chance to get free money for college? You can fill out your application starting October 1 of the year prior to attending college. The earlier you apply, the better your chances of getting aid other than loans (Rosata, 2018).

Where to Begin

To apply for federal financial aid, you must fill out the FAFSA form at https://fafsa.gov. Make sure you have all the required information on hand to make the application process run smooth. Once you have submitted your application, the individual colleges you listed will contact you through mail with your financial aid award letter ("Next Steps," n.d.). Once you decide on which college to attend, you will already have your financial aid in order.

Paying Loans Back

You begin repaying your student loans after graduation, drop below full-time enrollment or leave school. The federal government assigns a loan servicer to handle the billing, repayment plans, consolidations, and other services on your student loans. The loan servicer will contact you regarding a repayment plan. Below is some basic information on loan repayment options (“Repayment Plans.” n.d.).

Standard Repayment Plan	• Fixed payment amount • Payoff between 10-30 years
Graduated Repayment Plan	• Payments start off low and increase usually every 2 year • Payoff between 10-30 years
Extended Repayment Plan	• Payments are fixed or graduated (start off low and increase) • Payoff within 25 years
Revised Pay As You Earn Repayment Plan	• Monthly payments based on 10% of discretionary income • Recalculated each year based on income and family size • Any outstanding balance is forgiven if the loan isn’t paid in full after 20 years • You may have to pay income tax on any amount that is forgiven
Pay As Your Earn Repayment Plan	• Monthly payments based on 10% of discretionary income but never more that you would pay under the 10 year Standard Repayment Plan • Recalculated each year based on income and family size • Any outstanding balance on the loan is forgiven if the loan isn’t paid in full after 20 year • You may have to pay income tax on any amount that is forgiven
Income Based Repayment Plan	• Monthly payments will be either 10% or 15% of your discretionary income but never more that you would pay under the 10 year Standard Repayment Plan and recalculated each year based on income and family size • Any outstanding balance on the loan is forgiven if the loan isn’t paid in full after 20 or 25 years • You may have to pay income tax on any amount that is forgiven
Income Contingent Repayment Plan	• Monthly payments will be the lesser of 20% of discretionary income or the amount you would pay on a repayment plan with a fixed payment over 12 years and recalculated each year based on income • Any outstanding balance on the loan will be forgiven if the loan isn’t paid in full after 25 years • You may have to pay income tax on any amount that is forgiven
Income Sensitive Repayment Plan	• Monthly payment is based on your annual income with payoff within 15 years

Having Trouble Paying Your Loans?

Sometimes circumstances make it difficult to make payments on your student loans. If you find you’re having problems making loan payments you may need to change your repayment plan to give you lower payments and a longer repayment period. You may also qualify for a deferment or forbearance, which allows you to temporarily stop making payments or reduce your monthly payment for a period of time. Your loan servicer will work with you on the terms and conditions of a deferment or forbearance (“Deferment and Forbearance,” n.d.).

Loan Forgiveness

You are obligated to repay any student loan money you accept; however, there are certain circumstances that allow for loan forgiveness, cancellation, or discharge. Types of circumstances include death, permanent disability, Public Service Loan Forgiveness, Teacher Loan Forgiveness, school closing, and others. Each type has very specific requirements. Your loan servicer can assist you with questions about qualifications for loan forgiveness, cancellation, or discharge (“Forgiveness,” n.d.). In addition, if you are specifically looking at the Public Service Loan Forgiveness program, the Consolidated Appropriations Act, 2018 made changes to these programs. Check with your loan servicer for the most up-to-date information about these program (“Public Service,” n.d.).

Consequences of Default

Missing even one payment on your loans can lead to big problems. If you don’t make payments, your loans are considered delinquent and will remain that way until you pay the past due amount or make other arrangements with your loan servicer. Your loan will go into default if it remains delinquent.

The following are consequences of delinquency and default (“Understanding Delinquency,” n.d.):

- Your entire loan balance with interest is due immediately
- Lose the chance to get a deferment or forbearance
- You are not able to get additional federal student loans
- Lowered credit score and a negative credit reporting
- Your wages could be garnished to collect what you owe
- Your tax returns could be applied to the repayment of the loan
- You could be charged additional fees
- Your school might hold your transcripts

Final Thoughts on Federal Student Loans

If federal student loans are the right decision for you, be sure to recognize the commitment you make when accepting student loans. Educate yourself about loan amounts, interest rates, terms of repayment and other stipulations so you are able to repay the loans in full. Remember to be smart about loans and only take out the amount you need to pay for schooling. This will ensure you protect your financial future beyond college.

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