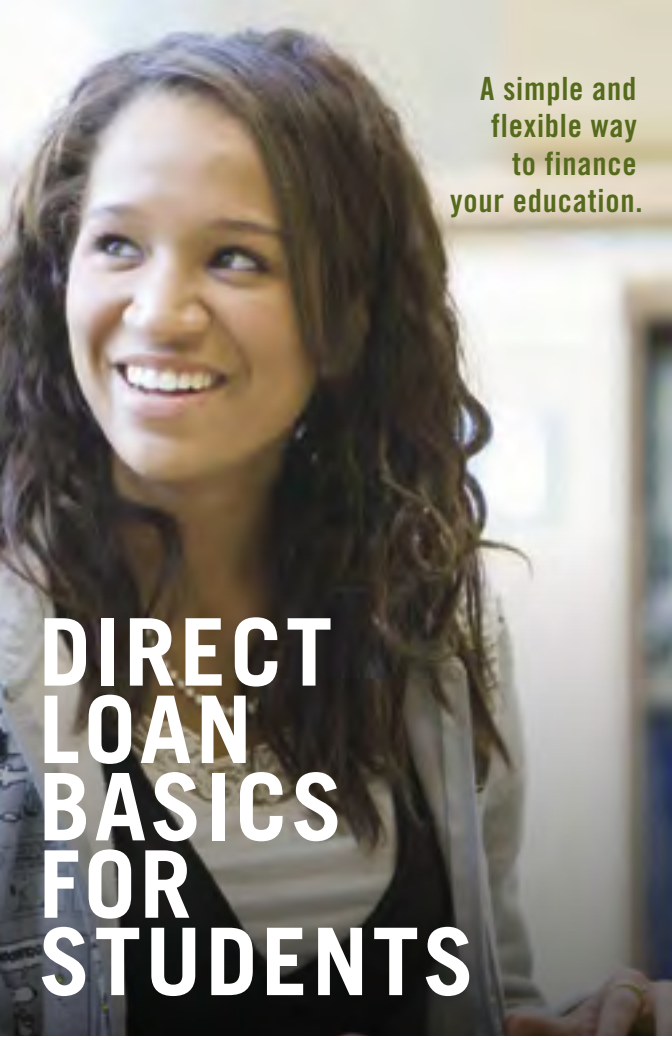

A simple and flexible way to finance your education.

DIRECT LOAN BASICS FOR STUDENTS

Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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How can Direct Loans help pay for college or career school expenses?

Direct Loans are federal loans to help you pay the cost of your four-year college or university, community college, or trade, career, or technical school. The lender is the U.S. Department of Education (ED) rather than a bank.

Direct Loans are:

- ***Simple***—You borrow directly from the federal government.
- ***Flexible***—You can choose from several repayment plans that are designed to meet your needs, and you can switch repayment plans at any time.

What kinds of Direct Loans are available?

- ***Direct Subsidized***—For undergraduate students. No interest is charged on subsidized loans while you are in school at least half-time and during deferment periods.
- ***Direct Unsubsidized***—For undergraduate, graduate, and professional degree students. Interest is charged on unsubsidized loans during all periods.
- ***Direct PLUS***—For graduate, professional degree students, and parents of dependent undergraduate students. Interest is charged during all periods.
- ***Direct Consolidation***—For student and parent borrowers who want to combine their eligible federal student loans into a single loan.

What are the eligibility requirements?

You must be enrolled at least half-time at a school that participates in the Direct Loan Program, and you must meet general eligibility requirements for the federal student aid programs. Learn more about these requirements at **StudentAid.gov**, or by contacting your school's financial aid office.

How do I apply for aid?

You apply for Direct Loans and other federal student aid by completing a *Free Application for Federal Student Aid* (FAFSA℠). You can complete the FAFSA online at **www.fafsa.gov**. The schools that you have identified on your FAFSA will receive your information. Some schools have additional application procedures—check with your school's financial aid

office to be sure. After your FAFSA has been processed, the school will notify you, usually through an award letter, of the types of aid for which you are eligible.

How do I take out a Direct Loan?

You must complete a Master Promissory Note (MPN). The MPN is a legally binding agreement to repay your loan to ED. In most cases, a single MPN can be used for loans that you receive over several years of study. Also, before receiving your first Direct Loan, you must complete entrance counseling. Entrance counseling is a mandatory information session which takes place before you receive your first federal student loan. Check with your school's financial aid office to find out how they want you to complete both the entrance counseling and the MPN.

How much can I borrow?

The maximum amount you can borrow each school year depends on your grade level and other factors. It ranges from a maximum of $5,500 per year for a dependent freshman to a maximum of $20,500 per year for a graduate or professional degree student. The actual amount you are eligible to borrow each year is determined by your school and may be less than the maximum amount. There are also limits on the total amount of your loan debt.

Graduate and professional degree students: If you need additional loan funds to meet your education expenses not covered by other financial aid, you may be eligible to receive a Direct PLUS Loan. You will need to sign a Direct PLUS MPN in addition to the Direct Unsubsidized Loan MPN. Check with your school's financial aid office to find out how they want you to complete both the entrance counseling and the MPN.

Parents of dependent students: Direct PLUS Loans are also available to parents of dependent undergraduate students (see *Direct Loan Basics for Parents* available at **StudentAid.gov/resources**).

REMEMBER: It's important to borrow only what you need for your current school year. Loan debt adds up quickly. You must repay your student loan and any accumulated interest.

What is the interest rate?

Direct Loans have a fixed interest rate that differs depending on the loan type and other factors. Check with your school's financial aid office or **StudentAid.gov** for current interest rate information.

If you receive a Direct Subsidized Loan on or after July 1, 2012, and before July 1, 2014, you will be responsible for paying any interest that accrues on it during your grace period. You do not have to make payments during the grace period (unless you choose to), but the interest will be capitalized (added to your principal amount of your loan) when the grace period ends. Interest on your unsubsidized and PLUS loan begins to accrue on the date your loan is first disbursed.

Is there a charge for Direct Loans?

Yes. In addition to interest, you pay a loan fee that is a percentage of the principal amount of each loan. We deduct the fee before you receive any loan money, so the loan amount you actually receive will be less than the amount you have to repay.

How will I receive my loan money?

Your loan money will usually be disbursed (paid out) in at least two installments. Your school will generally credit the loan money to your school account to pay tuition and fees, and other authorized charges. Any remaining loan funds will be paid to you directly.

When will I begin repayment of my loan?

Direct Subsidized and Direct Unsubsidized Loans have a six-month grace period that starts the day after you graduate, leave school, or drop below half-time enrollment. The repayment period begins the day after your grace period ends. However, you may make payments on your loans without penalty at any time before the repayment period begins.

Direct PLUS Loans do not have a grace period. Your PLUS loan enters repayment once your loan is fully disbursed (paid out). However, you may defer repayment while you are enrolled in school at least half-time, and for an additional six months after you graduate, leave school, or drop below half-time enrollment. Parent PLUS borrowers must submit the request for deferment for dependent undergraduate students. Learn more about *deferment and forbearance* at **StudentAid.gov**.

How do I repay my loan?

After you receive the money from your Direct Loan, your loan servicer will contact you and provide you with a loan repayment schedule that states when your first payment is due, the number and frequency of payments, and the amount of each payment.

Contact your loan servicer directly to find out how to make payments. It is very important that you make your full loan payment on time according to your repayment schedule. If you don't, you could end up in default, which has serious consequences (see *Understanding Default* at **StudentAid.gov**). Student loans are **real** loans—you have to repay the amount you borrowed plus any interest that accumulates.

What's a loan servicer?

A loan servicer is a company that collects payments on your loan, responds to your service inquiries, and performs other administrative tasks associated with maintaining a loan on behalf of a lender.

How much time will I have to repay my loan, and how much will I have to pay each month?

Generally, you'll have from 10 to 25 years to repay your loan, depending on the repayment plan that you choose.

You may choose a repayment plan that best meets your needs. The repayment plans are:

- ***Standard Repayment Plan***—Under this plan, you'll have fixed monthly payments for up to 10 years.
- ***Graduated Repayment Plan***—Under this plan, your payments start off lower and then gradually increase, usually every two years. You must repay the loan in 10 years.
- ***Extended Repayment Plan***—Under this plan, you will have fixed or graduated monthly payments for up to 25 years. To be eligible for this repayment plan, you must have more than $30,000 in Direct Loan debt and you must not have had an outstanding balance on a Direct Loan on Oct. 7, 1998.
- ***Income-Contingent Repayment (ICR) Plan***—Under this plan, your monthly payment is adjusted each year based on your annual income (and your spouse's income, if you're married), your family size, and the total amount of your Direct Loans. Payments are made for a maximum of 25 years.

(Direct PLUS Loans made to parents may not be repaid under ICR.)

- ***Income-Based Repayment (IBR) Plan***—Under this plan, your monthly payment is capped at an amount that is affordable based on your income and family size. Payments are made over a period of 25 years. (Direct PLUS Loans made to parents may not be repaid under IBR.)

Note: There are additional requirements for each repayment plan. You can read more about each of the plans, including the **new** "Pay As You Earn Repayment Plan" at **StudentAid.gov/repay**. You also can use our online calculators to estimate your monthly payment under each repayment plan. You can change plans at any time. There's no penalty if you make payments before they are due or pay more than the amount due each month.

Can I ever postpone making loan payments?

Yes, under some conditions you may receive a deferment or forbearance that allows you to temporarily stop or lower your payments.

For example, you may qualify for a deferment under the following conditions:

- You return to school at least half-time at a school that's eligible to participate in the federal student aid programs.
- You are studying full-time in an approved graduate fellowship program.
- You are in an approved full-time disability rehabilitation program.
- You are unemployed or meet our rules for economic hardship (this deferment is limited to three years).

You may also qualify for a deferment based on active duty service in the U.S. armed forces or National Guard. Refer to the Master Promissory Note for your loan or contact your loan servicer for more information about specific qualifications for deferment based on military service and for other available deferments.

If you don't qualify for a deferment but are temporarily unable to make loan payments for such reasons as illness or financial hardship, we may grant you loan forbearance.

Can my loan ever be canceled, discharged, or forgiven?

You must repay your loan even if you don't complete your program of study, can't find a job related to your program of study, or are unhappy with the education you paid for with your loan. We may discharge (forgive) your loan if you become totally and permanently disabled, have your loan canceled in bankruptcy, or if you die.

We may discharge some or all of your loan in the following situations:

- Your school closed before you completed your program.
- Your school forged your signature on your promissory note or falsely certified that you were eligible for aid.
- Your loan was falsely certified through identity theft.
- You withdrew from school but the school didn't pay a refund that it owed. Get more information about refund policies at **StudentAid.gov**.

You also may qualify for forgiveness of some or all of your loan balance if you meet the following conditions:

- If you teach full-time for five years at a school or educational service agency serving low-income families and meet other requirements, or
- After you have made 120 on-time, full, monthly payments on a Direct Loan under certain repayment plans while employed full-time by certain public service organizations (additional conditions apply). Note that only payments made after Oct. 1, 2007, qualify.

Learn more about loan forgiveness options at **StudentAid.gov**.

SAVE TIME AND MONEY WITH AUTOMATIC PAYMENT WITHDRAWAL

Your loan servicer may offer an interest rate reduction on your loans if you enroll in an automated payment plan. Contact your loan servicer for details.

REMEMBER…

It is important that you stay in contact with your loan servicer and inform your loan servicer of changes to

- your name, address, or phone number; or
- your enrollment status, such as transferring schools, dropping below half-time enrollment, or leaving school (including graduation).

CONTACTS

StudentAid.gov

Get more information about the Direct Loan Program and the aid application process, including helpful publications and tools for managing Direct Loans.

www.StudentLoans.gov

Get more information about completing Master Promissory Notes and Direct PLUS Loan requests.

www.NSLDS.ed.gov

National Student Loan Data System (NSLDS®)

For information about all of your federal student loans and federal grants, visit ED's National Student Loan Data System (NSLDS). Note that NSLDS does not include information about any private loans you may have received.

Stay connected:

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The William D. Ford Federal Direct Loan Program (Direct Loan) is one of the U.S. Department of Education's federal student aid programs.

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Note: The information in this document was compiled in the fall of 2012. For updates or additional information, visit **StudentAid.gov** or phone 1-800-4-FED-AID.