

Paying for College — What You Need to Know about Student Loans

As a student or a parent, you may be faced with the prospect of borrowing a loan at some point when considering how to pay for college. You will want to get acquainted with all your options so that you can select the least expensive financing option available to you and your family. Your financial aid office is the best resource to help you directly with this selection process. The initial step in the financial aid process — even to be awarded a student loan — is to **complete the FAFSA form on an annual basis**.

You might ask, why complete a FAFSA just to get a loan? One reason is that the Federal government requires schools to determine a student's eligibility for Pell Grants and subsidized loans before they certify unsubsidized and other higher-interest loans, based on information provided in the FAFSA. Also, financial aid offices want to make sure that you receive all the grant, scholarship, and gift aid available prior to borrowing. Another reason is that for some loans the government will pay interest while you are in school or during times when you defer loan payments (subsidized); for other loans, interest accrues throughout the life of the loan (unsubsidized).

Your school uses the financial data from your FAFSA to determine the amount of the loan and the type of loan you are eligible to receive. As part of the loan process, you will have to sign a promissory note, which is a binding legal document that lists the conditions under which you're borrowing and the terms under which you agree to repay your loan. In most cases, the promissory note or Master Promissory Note (MPN) is completed electronically.

TIP #1 Your Best Investment – Perkins Loan

Perkins Loans are awarded by the college to the neediest students based on the information provided on the FAFSA.

- This loan is **interest free while you are enrolled in school**
- You are eligible for a 9-month grace period upon graduation or withdrawal from college. A grace period allows time for an individual to get settled in a job prior to entering payments on their student loan.
- It is awarded to you directly from the college and will be credited to your student account.
- Interest rate is **fixed at 5%** for the 2010-11 school year.
- Most annual loan awards are divided and disbursed by term – during the school year.
- You may qualify for cancellation of up to 100% for this loan.

TIP #2 An Inexpensive Option – Subsidized Loan [Stafford, Federal Family Education Loan Program (FFELP) and Direct Loans]

- In the 2009-10 school year the rate is **5.6% fixed**.
- In subsequent years, the interest rate drops to **4.5%** in 2010-11 and **3.4%** in 2011-12
- This loan is **interest free** while you are in school enrolled halftime or greater.
- You **do not make any payments while you are in college**, and you will receive a six-month grace period after you graduate. During all periods where you qualify to have payments deferred (postponed), the interest is paid by the government on your behalf.
- If you are a new student, loan funds are not received and posted to your account until approximately 30 days after the term begins.
- If the school you attend participates in Direct Loans, the government will be your lender. Otherwise, you will select your own lender.

TIP #3 Another Inexpensive Option – Unsubsidized Loans [Stafford, Federal Family Education Loan Program (FFELP) and Direct Loans]

- **Interest continues to accrue from date of disbursement.**
- However, **you do not have to make any payments while you are attending college at least half time.**
- You will receive a grace period when you do not make payments while you are attending college halftime or more.
- Interest rate is **6.8% fixed for unsubsidized Stafford Loans.**
- **Graduate Stafford Loans** (both subsidized and unsubsidized) have a **fixed interest rate of 6.8% through 2013.**

TIP #4 A More Expensive Option – PLUS Loan for Parent Borrowers & Graduate Students

- Parents and graduate students may borrow **FFELP PLUS loans at 8.5% interest rate.**
- The **Direct Loan PLUS interest rate is 7.9%.**
- You may defer payments until after the student graduates or begins repayment within 60 days of when the loan is fully disbursed.
- The interest will accrue from the date of disbursement.
- A parent and/or a graduate student may borrow a PLUS Loan up to the amount of the student's cost of attendance less financial aid awarded.

TIP #5 Short-Term Loans for Emergencies

These are usually offered directly from the college financial aid office, and the provisions of the loan are decided by the college.

- They usually last for just the term and may cover some small amounts like books.
- Short-term loans are often most helpful to students who are waiting for other, long-term loans to be processed.



TIP #6 Very Expensive Loan Options – The Alternative Loans

If you still do not have enough funds and you have applied for everything you are eligible to receive, this may be your last resort loan. Alternative Loans are from a variety of private lenders and are similar to any consumer loan.

- They are based on credit ratings and may be in the parent's name or in the student's name.
- A student-borrower may be required to have a co-signer.
- Some Alternative Loans require the school to certify the application.
- Some Alternative Loans will be mailed directly to the school, and others are disbursed directly to the student.
- Most of these loans have variable interest rates, and the rate may be based on your credit score.
- For some of these loans, the repayment may be deferred while the student is in school; however, the interest will be accruing for all of these loans.

TIP #7 An Option for Some Middle-Class Families – Home Equity Line of Credit or Credit Cards

Some parents may be interested in borrowing against the equity in their home to pay for their child's college education. This is a consumer loan directly from a lender with a variable or fixed interest rate.

- You may borrow a set amount, or it may be a line of credit (LOC) that can be accessed as the student progresses over the next few years while in college. Some parents wonder whether they should borrow a PLUS loan or just obtain a home equity LOC. You will want to research this carefully.
- Some interest paid on an LOC is deductible on your taxes; in other cases it may not. The PLUS Loan borrower is covered in case of death, disability, or deferment, and the LOC may not cover the borrower unless additional insurance is obtained.
- Now that many colleges accept credit cards, more families use credit cards to pay for tuition. *This is the most expensive way to finance college costs!*
- Ask lots of questions and research this to make sure that you are taking advantage of the best loan or credit source for you and your family.

TIP #8 Borrow Now. Forgive Later – Loan Forgiveness Programs

There are numerous types of loans that may be forgiven in repayment. Information about loan forgiveness programs is available from your financial aid office.

- Some teachers may have some loans forgiven for teaching in certain low-income/high-need areas or based on curriculum.
- The military offers loan payback programs for those who enlist in the Army, Navy, or Air Force after college. For each year of active duty, the service branch makes a payment of 33 ½% or \$1,500, whichever is greater, on your total remaining principal balance. The Army and Navy will repay up to \$65,000 in student loans.
- High demand professions such as health care and nursing may offer loan repayment for service in critical areas.



TIP #9 Loan Repayment

All loans must be repaid according to the provisions covered in your promissory note.

- Most loans begin repayment six months after you graduate, withdraw from school, or drop to less than half-time enrollment.
- When you enter repayment, you will have up to ten years to repay these loans.
- There may be options for graduated repayment or income sensitive repayment (low paying occupations may qualify).
⇒ **Any time you are having trouble making payments, stay in close contact with your lender.**
- Set up your monthly student loan payments to be paid by electronic payments if possible. Why? This is the only way you will be sure your payment is received on time.
- Your lender may even give you some breaks on the interest rate for consecutive on-time payments. Student loans are reported to the credit bureau after disbursement and any late payments will negatively affect your credit rating in the future.

TIP #10 Obtain a Copy of Your Credit Report Annually

Anytime you have a loan obligation, it is a good idea to request a free annual copy of your credit bureau report to review for accuracy.

- **Caution:** When borrowing, be responsible. Your education loans will be an important part of your financial life. Know what you owe and who you owe!

Helpful Websites on Financing Higher Education

General Aid

- <http://www.ed.gov/students/college/>
- <http://studentaid.ed.gov/>

Student Loans

- <http://www.nslds.ed.gov>
- <http://www.federalstudentaid.ed.gov/locate.html>
- https://studentaid2.ed.gov/getmoney/pay_for_college/loans_evaluate.html
- <http://studentaid.ed.gov/students/attachments/siteresources/LoanForgivenessv4.pdf>

Home Equity Lines of Credit

- <http://www.bankrate.com/>

These are challenging times but there **is** help available. For more information about the Oregon Opportunity Grant, federal aid, and more financing information, visit www.GetCollegeFunds.org.

The Oregon Student Assistance Commission (OSAC) administers a variety of state, federal, and privately funded student financial aid programs, including grants and scholarships, for the benefit of Oregonians attending institutions of postsecondary education. The agency helps over 50,000 Oregon students work toward their educational goals each year.

