FAMILY FINANCIAL EDUCATION FOUNDATION

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Everything You Need to Know About Student Loans and Grants

Whether you're getting ready to head off to college, are a student, a parent of a soon-to-be or current college student, or a college graduate, having a basic knowledge of student loans and grants is extremely beneficial.

Not only will these facts aid you in making the best decisions for your financial future, but they will also keep you informed of all the options available and their core requirements so that you can make the best choice for your unique situation.

Government assistance programs that provide loans and grants vary widely and serve a variety of important purposes to meet your educational needs. To receive any government assistance, you must apply and meet specific eligibility requirements for each particular program option. Often a brief online search or a financial counselor from your chosen school can help you find an outline of requirements for available programs, to find one that best suits your needs. Not all programs provide cash payments, and they may have limitations, but student loans and grants can and do help with the financial burden of college education costs.

Understanding how these programs benefit students and how they may apply to you will protect you later as you repay student loans or maintain the requirements to keep any awarded money. Let's start with the basics.

What is a student loan?

A student loan, unlike any other type of loan, is designed to help students pay for university tuition, textbooks, and living expenses. Because it is specifically for students, it differs from other types of loans in that the interest rate may be substantially lower and, later, the repayment schedule may be deferred if the student goes back to school.

What types of student loans are available?

Many student loans are out there, but in the United States, the most common options are sponsored by the federal government. Federal loans can be "subsidized" or "unsubsidized." With subsidized student loans, interest does not accrue until a student is no longer in school (rather, the U.S. Department of Education pays the interest while you're in school), but subsidized loans are only given to students with financial need. Usually, most subsidized loans go to students whose families' annual income is less than $50,000.

If you do not fall into this category, however, all is not lost. Unsubsidized loans are given to students without needing to demonstrate financial need but begin accruing interest immediately. You can choose not to pay the interest while you are in school or during grace periods. However, the interest will accumulate and be capitalized or added to the principal amount of your loan.

With both of these loans, the school itself will determine the amount you can borrow based on your financial

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need, the cost of tuition, and any other financial aid you may have received.

Federal student loans are an attractive option because they are funded by government money, which keeps the interest rates low they also come with favorable repayment options. They require no credit checks or collateral.

Stafford Loan— This is the most common federal loan and comes subsidized or unsubsidized. The maximum annual limit depends on your year in school as an undergraduate, so you may not accrue over $23,000 in subsidized Stafford loans throughout your undergraduate studies, or from $5,500 to $12,500 in unsubsidized Stafford loans. Subsidized loans normally have an interest rate at or below 6.8 percent and the government pays the interest while you attend school.

The unsubsidized loan interest is usually a lower rate (fixed 4.66%) however, the student is responsible for paying the interest. Interest payments on an unsubsidized loan are often postponed while in school.

Perkins Loan— As the most desirable federal loan; Perkins loans also have more stringent eligibility rules. For example, these loans are reserved for students who show exceptional financial need. The government distributes a limited amount of funds to each school, and the school determines which students are lending worthy. Perkins loans have a fixed interest rate (about 5%), and a limit is set on the amount that can be borrowed (up to $5,500 annually for undergraduates and $8,000 annually for graduate students).

There are also some loans available for parents. Originally called Parent Loans for Undergraduate Students. These loans were created to help parents pay for their children's education expenses. Today, parents can take out Parent PLUS loans and graduate students may use Grad PLUS loans.

PLUS loans— As with our previously discussed education loans, PLUS loans are funded by the federal government. Unlike other more traditional student loans, there is no maximum amount, and funds can be used to cover education costs that are not typically covered by other financial aid. PLUS loans have a fixed interest rate of 7.21 percent.

There are also private student loans and loans given for specific areas of study, such as for health and medical professionals. These types of loans depend on credit standing and your particular area of study. They are a useful resource for students and parents when other sources of financial aid do not adequately cover the cost of school.

Private loans are, as the name suggests, provided by private lenders instead of government funding. Therefore, they closely resemble personal loans more than student or parent loans and borrowing terms will vary depending on the lender. The amount you receive will depend heavily on your credit history, and the interest rate is commonly higher than federal loans but still lower than those from a credit card.

If you have a good credit score, private loans can be a helpful option. However, many students do not yet have the credit history for this option. Federal student loans, on the other hand, do not require a good credit score, credit history, or a co-signer to receive the funds.

How do you pay back a student loan?

Once a student has graduated or is no longer in college, a grace period begins that usually lasts about six months. After the grace period, if you have not returned to school, your student loan payments will begin. That's when the different repayment options will start to matter.

Many repayment plans are available, but here are the most frequent:

Income Based Repayment— The IBR plan is an alternative to paying back federal student loans, allowing borrowers to pay back based on how much they make and not how much they owe. Because it is a federal program, this option only works with federal loans. This

plan typically caps loan payments at 10 percent of the borrower's current income. However, deferred interest will accrue, growing the balance you owe over time. After a certain number of years (10 years for those working in the government or for 25 years if the student works at a for-profit), the balance of the loan is forgiven.

Graduated Repayment Plan— With this plan, payments are lower at first and then increase, usually every two years. They can last up to 10 years (or 30 years for consolidation loans), and all borrows are eligible for this plan. However, you will pay more over time than under a standard plan.

Standard Plan— As the most common choice, each payment with this plan is a fixed amount and lasts up to 10 years. So for the entire period, you are paying back your loan, your payment will be the same every month. All borrowers are also eligible for this plan, and you'll pay much less over time with this plan that any other.

Extended Repayment Plan— If you have more than $30,000 in outstanding direct loans, payments may be fixed or graduated for up to 25 years. This plan works well if you just need more time to pay off all that debt. With this plan, your payments will be lower than a Standard 10-year plan or the Graduated Repayment Plan, but you will pay more over time.

What happens if student loans are left unpaid?

Whether the result of economic hardship, inability to find full-time employment, military duty, or for any other reason, student loans will go into what is called default if they are not paid. Usually after only two or three months.

Defaulting on your loan is the absolute worst outcome, resulting in a bad credit score, garnished wages, and borrowers could even be sued for the full loan amount.

If you are not making enough money to cover what you owe, you may consider talking to your lender and changing your plan to one that may be more affordable for you. Telling the lender upfront will allow them to help you find options to help you. Private lenders have their own rules and punitive measures for borrowers, but they are required to offer deferment options and the ability to change your payment plan at least once a year.

A borrower who cannot make any payments at all still has a few options provided the lender was notified before the loan goes into default. Everyone in the federal loan program who can provide proof they have financial hardship is entitled to a deferment if they meet the requirements.

While in deferment, payments are postponed for up to a year. If you have a subsidized loan, the government will pay the interest, which means it won't accumulate over the deferment period. Deferment can be renewed for up to three years without affecting your credit score, but borrowers must provide documentation of economic hardship each year payment is deferred.

Those with private loans who don't qualify for federal loan deferments, on the other hand, can request forbearance. A forbearance is an agreement between the lender and the student that suspends the payments up to one year. During this year, the interest is capitalized, which means it is added back onto the loan balance, so your debt will grow.

The biggest difference between a deferment and a forbearance is that while a forbearance is at a lender's discretion, all federal loan borrowers are entitled to a deferment.

Finally, the last option is to apply for a temporary interest-only repayment plan. These are only available for a specific amount of time, which is negotiated between the borrower and the lender.

While private loans do not offer any forgiveness opportunities, federal student loans can be dissolved with an income-driven repayment plan. The Public Service Loan Forgiveness program also forgives any remaining federal loans after ten years, and some loans like a Perkins Loans may forgive this type of loan after an even shorter amount of time.

Also, in the event of your death or if you become permanently disabled, the government will discharge your federal loans, meaning they will no longer need to be repaid. The same goes to a parent who takes out a PLUS loan on a child's behalf in the event of their death.

When it comes to looking for ways to pay for college, being informed of all the options out there will help you make the most educated decision possible.

What are grants?

Similar to scholarships, grants do not require repayment and are awarded for just about anything, however specific. Typically, the amount of the award depends entirely on the level of unmet need, which is determined by completing the Free Application for Federal Student Aid (FAFSA).

What grants are available?

Grants are acquired from many different sources and offer help to a variety of students. From the federal government, the most popular are Pell Grants and the Federal Supplemental Educa-

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tional Opportunity Grant. These grants are designed to help undergraduates with unmet financial need.

There are also more specialized grants such as the Iraq and Afghanistan Service Grants and the Teacher Education Assistance for College and Higher Education (TEACH) Grants. These programs are designed with particular students and areas of study in mind.

Pell Grant— The most popular option, Pell Grants are awarded to undergraduate students from low-income families who have not yet earned a Bachelor's or professional degree. The maximum award can vary from year-to-year depending entirely on the program's funding, but the maximum for the 2015-2016 school year was $5,775. Whatever amount you receive depends on financial need, the cost of attendance, and whether you have full-time or half-time status.

Federal Supplemental Educational Opportunity Grant— This option is awarded to undergraduates with the greatest amount of financial need who also qualify for the Pell Grant. Unlike the Pell Grant, the FSEOG depends on the school's funds and will not be awarded to students once those funds have run out whereas Pell Grants are awarded to every student that's eligible. FSEOG awards can range from $100 to $4,000 depending on the college you attend and your Expected Family Contribution.

Iraq and Afghanistan Service Grant— With this grant, money is awarded to college students whose parent or guardian was a member of the U.S. armed forces and died as a result of the military performance they performed either in Iraq or Afghanistan after September 11, 2001. To qualify, you must have been under 24 years old or enrolled in college, at least, part-time at the time of your parent's death. Also, you must be ineligible for a Pell Grant based on your Expected Family Contribution but still meet all the other criteria. The maximum award amount for 2015-2016 was $5,775 as well, but it cannot exceed the cost of attendance for the awarded year.

TEACH Grant— For those that plan to teach in a high-need field in low-income areas, this plan is for you. It is different from other federal student grants in that it requires you to complete specific classes to receive the grant. Then, you must hold a job to keep the grant from turning into a loan. Applicants are also expected to meet certain academic achievement requirements like scoring above the 75th percentile on college admission tests or maintaining a cumulative GPA of at least 3.25.

TEACH Grants are currently awarded up to $4,000 per year for students pursuing a career in teaching. Applicants must complete a service obligation once they receive the grant. Completing the Free Application for Federal Student Aid (FAFSA) is the best way to see if you qualify.

So what's best? A loan or a grant?

The answer to this question is never black and white. Many students use a combination of loans, grants and self-pay methods to get through college. Obviously, the biggest difference between loans and grants is that loans must be repaid while grants do not. However, a grants stipulation may severely limit the number of students that can qualify.

Grants are typically based on financial need and/or targeted demographics or fields of study while loans are an amount of money that you borrow and must pay back over a period of time with interest. Some loans are also based on financial need, and those typically have more favorable interest rates.

Because grants are quite literally free money, it is obviously in your best interest to use grants, if you meet the requirements. However, you must be sure you are aware of and can meet all of the requirements associated with the grant. Stipulations such as a field of study and keeping up your GPA may need to be done to stop the money from turning into a loan.

When it comes to looking for ways to pay for college, being informed of all the options out there will help you make the most educated decision possible. Federal loans are an excellent option that should be utilized only after receiving any eligible grant or scholarship money.

Financing your higher education is a crucial step in creating a prosperous future, and being prudent about the amount of debt you incur will have far-reaching benefits for your financial future.

If you know of someone who would benefit from this information, please pass this newsletter along.
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Family Financial Education Foundation

ACCESS EDUCATION SYSTEMS
724 Front Street, Suite 340
Evanston, WY 82930
contact: (877) 789-4175
www.ffef.org | info@ffef.org

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