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ABSTRACT

This guide provides the basic facts about subsidized Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) and Federal Direct Unsubsidized Staff/Ford Loans (Direct Unsubsidized Loans) and explains the borrower's rights and responsibilities. It contains tips to help the borrower develop a budget for managing education expenses and financial resources. It also provides information on managing and repaying the loans. The guide's sections are: (1) "Facts about Your Direct Loans"; (2) "Deferment"; (3) "Forbearance"; (4) "Budgeting Your Money"; (5) "Review of Critical Information"; (6) "Important Things You Should Find Out"; and (7) "Common Loan Terms." The guide also contains information on contacting Direct Loan staff and a summary checklist of rights and responsibilities. (EV)

Entrance Counseling Guide for Borrowers

Contacting the Direct Loan Staff

Payments:

U.S. Department of Education
Direct Loan Payment Center
P.O. Box 746000
Atlanta, GA 30374-6000

Direct Loan Servicing Center (DLSC):

Questions about your student loan
Address/name changes
Estimated repayment information
Repayment plan changes
Deferment and forbearance forms

Mail:
U.S. Department of Education
Borrower Services Department
Direct Loan Servicing Center
P.O. Box 4609
Utica, NY 13504-4609

Phone:
Borrower Services: (800) 848-0979 or (315) 738-6634
Applicant Services: (800) 557-7394

The Direct Loan Servicing Center phone lines are open from 8 a.m. to 8:30 p.m. (EST) Monday-Friday.

Loan Consolidation Center:

Mail:
U.S. Department of Education
Consolidation Department
Direct Loan Servicing Center
P.O. Box 1723
Montgomery, AL 36102-1723

Phone:
Consolidation Department: (800) 557-7392

TDD Service for the Hearing Impaired:

Applicant Services: (800) 557-7395
Borrower Services: (800) 848-0983

Contents/Introduction

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Introduction

The U. S. Department of Education (ED) makes your William D. Ford Federal Direct Loans directly to you through the school(s) you attend. ED is your lender and will remain your lender throughout the life of your Direct Loans. Your payments will go to ED's Direct Loan Servicing Center (Servicing Center).

While the Servicing Center will oversee your loan account until your loans are paid in full, you must manage your loans because you have the sole responsibility for repaying them. This *Entrance Counseling Guide for Borrowers (Borrowers' Guide)* contains useful tips to help you develop a budget for managing your education expenses and financial resources. It also provides important information to help you manage and repay your loans.

This *Borrowers' Guide* provides the basic facts about subsidized Federal Direct Stafford/Ford Loans (Direct Subsidized Loans) and Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans) and explains your rights and responsibilities as a borrower.

Please remember, if you have any questions or concerns about your loan, the office at your school that provides loan counseling and the Direct Loan Servicing Center are there to help. The Servicing Center's address and toll-free telephone number will appear on all correspondence and monthly statements that you receive from the Servicing Center. You can also get more information about your Direct Loans from the web site (www.ed.gov/DirectLoan).

Your loans will help you finance your education, but they are also a serious responsibility. We hope this *Borrowers' Guide* will help you successfully manage your education loans.

Facts about Your Direct Loans

What are Direct Subsidized Loans and Direct Unsubsidized Loans?

Direct Subsidized Loans and Direct Unsubsidized Loans are made to students attending school at least half time. The U.S. Department of Education is the lender. The Department delivers the loan money to you through your school.

A student qualifies for a Direct Subsidized Loan based on financial need, as determined under federal regulations. A student's need is not a factor in determining eligibility for a Direct Unsubsidized Loan. Students may qualify for a Direct Unsubsidized Loan regardless of their or their families' incomes. It is possible for a student to have a Direct Subsidized and a Direct Unsubsidized Loan for the same award year.

No interest accumulates on a Direct Subsidized Loan while you are attending school at least half time. Interest does accumulate on a Direct Unsubsidized Loan while you are in school.

All of your Direct Loans will be in one account, making repayment easier. You will have only one account, one monthly payment, and one point of contact for all of your Direct Loans.

How much can I borrow?

For Direct Subsidized Loans and Direct Unsubsidized Loans, you are subject to annual and aggregate (combined total) loan limits on the basis of the following:

- Your academic level (freshman, sophomore, and so on),
- Your status as a dependent student or an independent student, and
- The length of the academic program in which you are enrolled.

The chart on the next page will help you determine the annual and aggregate amounts you are eligible to borrow.

What are the interest rates?

The interest rates for both Direct Subsidized and Direct Unsubsidized Loans are variable and are adjusted once each year on July 1. The rate will never exceed 8.25 percent for students.

During the grace period (before the repayment period begins), during in-school, and during authorized periods of deferment (see pages 9 and 10), the interest rate is equal to the 91-day Treasury bill rate plus 1.7 percent for loans disbursed on or after 7/1/98 through 6/30/2003.

For Direct Subsidized and Unsubsidized Loans in repayment, the interest rate is equal to the 91-day Treasury bill rate plus 2.3 percent for loans disbursed on or after 7/1/98 through 6/30/2003.

If you have a Direct Subsidized Loan, the federal government does not charge you interest while you are enrolled in school at least half time, during the six-month grace period, or during deferments.

If you have a Direct Unsubsidized Loan, interest will be charged beginning the day the loan is paid (disbursed) to you or credited to your account until the day the loan is repaid in full. You may pay the accumulating interest while you are in school, during the grace period, or during deferment, or you have the option of capitalizing the interest. Whichever option you choose, you are responsible for paying all of the interest on a Direct Unsubsidized Loan.

Direct Loan Program: Undergraduate Annual Loan Limits

	Length of Program or Final Period of Study			
Student Year	Full academic year	2/3 to less than full academic year	1/3 to less than 2/3 academic year	less than 1/3 academic year
1st year				
Dependent and Independent Students Subsidized and Unsubsidized	$2,625	$1,750	$875	0
Independent Student Additional Unsubsidized	$4,000	$2,500	$1,500	0
2nd year				
Dependent and Independent Students Subsidized and Unsubsidized	$3,500	Proportional Proration	Proportional Proration	Proportional Proration
Independent Student Additional Unsubsidized	$4,000	$2,500	$1,500	0
3rd year				
Dependent and Independent Students Subsidized and Unsubsidized	$5,500	Proportional Proration	Proportional Proration	Proportional Proration
Independent Student Additional Unsubsidized	$5,000	Proportional Proration	Proportional Proration	Proportional Proration

For dependent students whose parents cannot borrow under the PLUS loan program, the amount of Unsubsidized loans a student can borrow is the same as an independent student.

Maximum Aggregate (Combined Total) Loan Amounts

Borrower's Academic Level	Subsidized and Unsubsidized*
Dependent Undergraduate Student	$23,000
Independent Undergraduate Student	$46,000
Graduate or Professional Student	$138,500

**Includes all amounts owed by the borrower under the Federal Stafford (non-Direct) Loan and Federal Supplemental Loans for Students (SLS) Programs. (Note: The SLS Program expired on June 30, 1994.)*

Example: Capitalizing Interest

This chart compares the costs of paying (not capitalizing) the interest and not paying (capitalizing) the interest on a $2,625 Direct Unsubsidized Loan at 8.25 percent interest, under the Standard Repayment Plan. The borrower attended school for 9 months and then had a 6-month grace period.

Type of Interest	Loan Amount	Interest Charged	Interest Paid	Principal to Be Repaid	Monthly Payment	Number of Payments	Total Repayment
Not Capitalized	$2,625	$251	$251	$2,625	$50	65	$3,498*
Capitalized**	$2,625	$251	$0	$2,876	$50	73	$3,673

**Total repayment includes the $251 in interest paid before the loan went into repayment.*

***Interest was capitalized once, when the borrower entered repayment (15 months after the loan was made).*

Keep in mind that capitalization increases the total cost of your loan.

What is capitalizing interest?

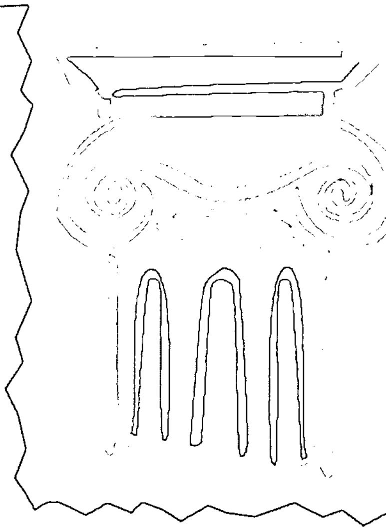
Capitalizing interest means adding unpaid, accumulated interest to the principal balance of a loan (that is, adding interest to the total amount borrowed). The borrower of a Direct Unsubsidized Loan has the choice of paying the interest on an ongoing basis or having the interest capitalized. Unpaid interest will be capitalized whenever your borrower status changes—for instance, when you enter repayment.

Interest costs on a Direct Unsubsidized Loan begin accumulating the date the loan money is disbursed and continue to accumulate until the principal and interest are paid in full.

Capitalizing interest is a way to postpone making interest payments. Keep in mind that capitalization increases the total cost of your loan.

If you choose to have the interest on your loan capitalized, the total amount you repay will be greater than if you pay the interest while you are in school, during the grace period, or during deferment.

The example above shows what happens if you pay the interest on a Direct Unsubsidized Loan on an ongoing basis and what happens if you allow it to be capitalized.



What is a Master Promissory Note (MPN)?

A promissory note is a legally binding contract between you and your lender, the U.S. Department of Education. It contains the terms and conditions of your loan and how and when you will repay it. By signing the Master Promissory Note, you are taking full responsibility for your loans. You are responsible for paying the loans in full. If you are a previous borrower, you completed a separate promissory note for each new loan borrowed. Now, in many cases you will sign only one promissory note that will be used for all of your loans at the same school. Be sure to keep the promissory note and all other papers related to your loan.

What is a disclosure statement?

A disclosure statement is a separate document sent by the federal Loan Origination Center. You will receive a disclosure statement for each new loan you borrow before or at the time the first part of your loan is paid to you or credited to your account. It will tell you the types of loans you are borrowing, the amount, the fees, and other information. In the future, you may receive disclosure statements from your school. If you apply for admission at more than one school, you may receive more than one disclosure statement, one from each school. Each statement will have the name of the school and the loans listed. It is important to remember that you will only be responsible for the loans you actually receive at the school you choose to attend. The disclosure statement will help you keep track of how much you have borrowed. You need to keep these statements for your records until your loans are paid in full.

Can I borrow less than the amount that has been awarded by my Financial Aid Office?

Yes. If you decide you do not want all or part of your loan, you may cancel it or return the unwanted portion and you won't be responsible for that amount. You should notify your school in writing or return the funds within specific time frames. For more details about canceling all or part of your loan, check with your school's financial aid administrator or the office that provides loan counseling.

What is the loan fee?

The loan fee is another expense of borrowing. Recently, the U.S. Department of Education announced a fee reduction for loans disbursed after August 15, 1999. The new loan fee is 3 percent. The loan fee is subtracted from the loan funds before the money is disbursed to you.

What are my repayment options?

You have four repayment options:

Standard Repayment Plan

With Standard repayment, you will make a fixed monthly payment of at least $50 for up to 10 years. For some borrowers, this plan results in the lowest total interest paid because the repayment period is shorter than it would be under the other plans. In general, the shorter the repayment period, the lower the total amount repaid by the borrower.

The disclosure statement helps you keep track of how much you have borrowed.

Extended Repayment Plan

With Extended repayment, you will still have minimum monthly payments of at least $50, but you can take from 12 to 30 years to repay your loans. The length of your repayment period will depend on the total amount you owe when your loans enter repayment. (See the box below). Because you may take more than 10 years to repay your loans, your monthly payment will be less than if you choose Standard repayment. However, the total amount you repay will be greater because you will pay more interest.

Graduated Repayment Plan

With Graduated repayment, your payments start out at one level, then increase every two years. The repayment period varies from 12 to 30 years and depends on the total amount that you owe when your loans go into repayment. (See the box below). If your income is low when you leave school but is likely to increase steadily over time, this might be the best plan for you.

Income Contingent Repayment Plan

This plan gives you flexibility to meet your Direct Loan obligations without causing undue financial hardship. Each year, your monthly payment amount will be calculated on the basis of your annual Adjusted Gross Income (AGI) and the total amount of your Direct Loans.

To participate in the Income Contingent Repayment Plan, you must authorize the U.S Internal Revenue Service (IRS) to release information about your income to the U.S. Department of Education. This information will be used to calculate your repayment amount annually.

If your payments do not cover the accumulated interest on your loans, the unpaid interest will be capitalized once each year until it reaches a maximum of 10 percent of the original amount you owed when your loans entered repayment. After you reach this maximum, interest will continue to accrue and be payable, but will no longer be capitalized. The additional interest will increase the amount you owe and may extend your repayment period. (This limit on capitalization does not apply to periods of deferment or forbearance.)

Additional interest will increase the amount you owe and may extend your repayment period.

Extended/Graduated Repayment Table

Amount of Debt	Length of Repayment Period May Not Exceed
Less than $10,000	12 years
$10,000 - $19,999	15 years
$20,000 - $39,999	20 years
$40,000 - $59,999	25 years
$60,000 or more	30 years

The maximum repayment period is 25 years. For example, if you make payments under the Standard Repayment Plan and then switch to the Income Contingent Repayment Plan, all of these periods are counted toward your 25-year repayment period. If you have not fully repaid your loans after 25 years under Income Contingent Repayment, the unpaid portion will be discharged (canceled). However, you will have to pay taxes on the amount discharged.

If you do not choose a repayment plan, your loans will automatically be placed in the Standard Repayment Plan. If your financial situation changes, you can contact the Direct Loan Servicing Center to change your repayment plan at any time. If none of the repayment plans meet your needs because you have exceptional circumstances, the Direct Loan Servicing Center may provide an alternative repayment plan.

Can I combine my loans to make repayment easier?

Yes—you might want to consider a Federal Direct Consolidation Loan to simplify repaying your loans. Consolidation gives you only one lender and one monthly bill.

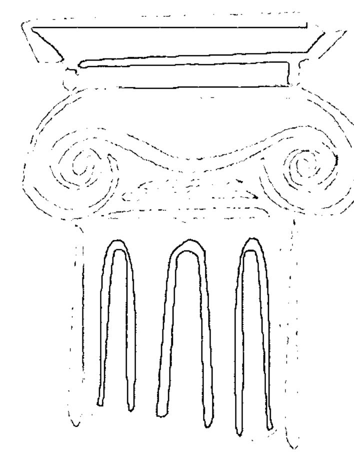
Borrowers who are attending a Direct Loan school half time and have at least one Direct Loan or Family Federal Education Loan (FFEL) in an in-school period or who are enrolled at least half time in a non-Direct Loan school and include a Direct Loan in an in-school period qualify for in-school consolidation. Borrowers who consolidate in school will still benefit from the six-month grace period and possibly a lower interest rate.

Borrowers who do not qualify for in-school consolidation or who forget to consolidate while in school, but who have FFEL or Direct Loans, can consolidate while in grace. During the six-month grace period after graduation or withdrawal, a borrower can still benefit from lower interest rates with consolidation. Borrowers are encouraged to apply in the third month of their grace period.

Any Direct Subsidized Loans, subsidized Federal Stafford Loans, Guaranteed Student Loans (GSLs), Federal Insured Student Loans (FISLs), Federal Perkins Loans, National Direct Student Loans, National Defense Student Loans, subsidized Federal Consolidation Loans, and other Direct Subsidized Consolidation Loans can be combined into one Direct Subsidized Consolidation Loan.

Any Direct Unsubsidized Loans, unsubsidized Federal Stafford Loans, Federal Supplemental Loans for Students (SLS), Auxiliary Loans to Assist Students (ALAS), Health Professions Student Loans (HPSLs), Health Education Assistance Loans (HEAL), Loans for Disadvantaged Students (LDS), Nursing Loans made under Subpart II of Part B of Title VIII of Public Services Health Act, Federal Consolidation Loans, and other Direct Unsubsidized Consolidation Loans can be combined into one Direct Unsubsidized Consolidation Loan.

For more information about Direct Consolidation Loans or in-school consolidation, contact your financial aid office or call ED's Consolidation toll-free number, 1-800-557-7392.



If you do not choose a repayment plan, your loans will automatically be placed in the Standard Repayment Plan.

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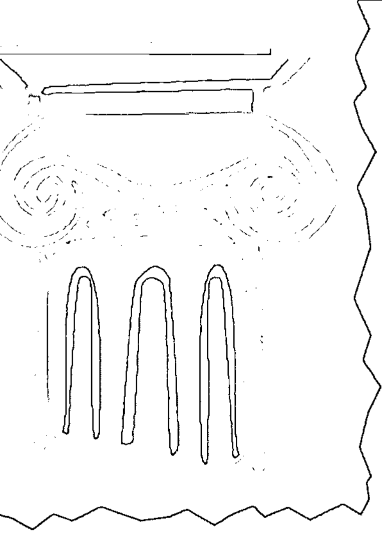


When do I begin repayment?

After you graduate, leave school, or drop below half-time enrollment, you have six months before you must begin repayment. This is called a grace period. If you return to school at least half time before that six-month period ends, you may postpone repayment. The repayment of your new Direct Subsidized Loan or Direct Unsubsidized Loan will again be delayed for the remainder of your grace period following the day you graduate, leave school, or drop below half-time enrollment. If you enroll at another school, it is your responsibility to notify the Direct Loan Servicing Center and the lender or servicer of any other student loans. You may need to obtain an in-school deferment to prevent your loans from entering repayment.

If you have a Direct Subsidized Loan, you will not be charged interest during grace periods or while you are enrolled in school at least half time. If you have a Direct Unsubsidized Loan, you will be responsible for paying interest during in-school or grace periods, unless you choose to have the interest capitalized.

Note: The first actual payment is due within 60 days after the grace period ends.

You will receive more detailed information about repayment during exit counseling.

Can I prepay my loan?

Yes—you may prepay all or part of the unpaid balance on a loan at any time without penalty. If you have more than one Direct Loan, be sure to specify which loan you are prepaying.

What if I have problems repaying my loan?

If you have a problem making a payment on your loan as scheduled, contact the Direct Loan Servicing Center immediately. The Servicing Center will work with you to help you avoid the costs and adverse consequences of delinquency, which could result in default on your Direct Loans. Deferment and forbearance are options that can help you avoid default. These postponement options are described in detail in the segments that follow.

You may prepay all or part of the unpaid balance on a loan at any time without penalty.

Deferment

A deferment allows you to temporarily postpone payments on your loans. During deferment of Direct Subsidized Loans, principal payments are postponed, and interest is not charged. In the case of Direct Unsubsidized Loans, principal payments are postponed, but interest is charged during the deferment period.

Deferments may be available to you if you are:

- Pursuing at least half-time study at an eligible school;
- In a graduate fellowship program approved by the U.S. Department of Education;
- In a rehabilitation training program for individuals with disabilities, approved by the U.S. Department of Education;
- Conscientiously seeking but unable to find full-time employment (for up to three years); or
- Experiencing economic hardship (for up to three years).

These deferments apply to all Direct Loans.

Other deferments may be available to you as a Direct Loan borrower. If, at the time you obtain a Direct Loan, you have an outstanding balance on a Federal Stafford Loan, Guaranteed Student Loan (GSL), Federal Insured Student Loan (FISL), Federal PLUS Loan, Federal Supplemental Loans for Students (SLS) Loan, Auxiliary Loans to Assist Students (ALAS) Loan, or Federal Consolidation Loan borrowed before July 1, 1993, you can also defer your Direct Loan:

- While serving in the U.S. Armed Forces, in the Commissioned Corps of the Public Health Service, or in the Peace Corps (for up to three years);
- While serving as a full-time paid volunteer for the ACTION programs, or any approved tax-exempt organization (for up to ...e years);
- While you are "temporarily totally disabled" according to the certification of a qualified physician, or while unable to work because you must care for a spouse or other dependent who is temporarily totally disabled (for up to three years);
- While serving in an internship or residency required to begin professional practice (for up to two years);
- While serving in the National Oceanic and Atmospheric Administration Corps (for up to three years);
- While teaching full time in a public or nonprofit private elementary or secondary school in an area the U.S. Department of Education has determined to be a teacher shortage area (for up to three years);
- If you are a mother of a preschool-age child and you have entered or re-entered the workforce within the preceding year in a full-time position at a salary not more than $1 above the minimum wage (for up to one year); or
- For parental leave for each period during which you are pregnant, you are caring for your newborn child, or you are caring for your newly adopted child (for up to six months). You must be unemployed, must not be a student, and must apply within six months after you leave school or drop below half-time status.

You must apply for a deferment through the Direct Loan Servicing Center. Contact the Servicing Center to request a deferment form. The Servicing Center will send you the form that is appropriate for your situation. Or you may download the application on our web site (www.ed.gov/DirectLoan/enter.html#defer).

Forbearance

Forbearance is a temporary postponement or reduction of loan payments for a limited and specified period or an extension of the time that you have to make your loan payments. You may qualify for forbearance if you are:

- Unable to make loan payments due to poor health or other acceptable reasons, and you do not meet a deferment condition;
- Serving in a medical or dental internship or residency;
- Serving in a position under the National and Community Service Trust Act of 1993; or
- Obligated to make payments on federal student loans that are equal to or greater than 20 percent of your total monthly gross income (for up to three years).

In a period of forbearance, interest will be charged and, unless it is paid, will be added to the principal balance of your loans (see the description of capitalized interest on page 4). This will increase the amount you must pay back.

Can my Direct Loan debt ever be discharged (canceled)?

A discharge (cancellation) releases you from all obligation to repay the loans. You can receive a discharge only with proof of:

- Total and permanent disability (this cannot be for a condition that existed at the time you applied for Direct Loans, unless a doctor certifies that the condition substantially deteriorated after the loans were made);
- Inability to complete a course of study because your school closed (under certain circumstances) or because your eligibility was falsely certified by the school;
- Bankruptcy (in certain cases); or
- Death.

In addition, some loans may not have to be repaid if you claim, as a defense against repayment, that the school did something wrong or failed to do something it should have done. You may make a claim as a defense against repayment only if what the school did or did not do resulted in legal action being taken against the school under state law.

You are still obligated to repay your loans even if you:

- Did not complete the program of study at the school (for reasons other than school closure or false certification of loan eligibility);
- Did not like school or the program of study; or
- Did not obtain employment after completing the program of study.

What happens if I do not repay my loan?

If you fail to make loan payments on time or if you default on your loans, the consequences are extremely serious.

- The entire unpaid balance and accrued interest on your loan could be immediately due and payable.
- You will lose your deferment/ forbearance options.
- You will not be eligible for further federal student financial aid.
- Your account may be turned over to a collection agency, increasing your total debt by late fees, additional interest, court costs, collection fees, attorney's fees, and other costs.
- Your debt will be reported to credit bureaus as delinquent, which may damage your credit rating, making it difficult for you to obtain a car loan or a mortgage.
- The federal government can retain your federal tax refunds.
- Your employer, at the request of the federal government, can withhold (garnish) part of your wages and give them to the federal government as payment.
- The federal government can take legal action against you.

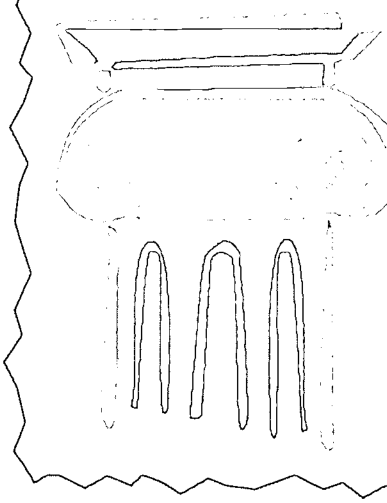
Don't let this happen to you!

Remember, if you are having trouble making your payments, call the Direct Loan Servicing Center. You may qualify for a deferment or forbearance. The Servicing Center will work with you to help you avoid default.

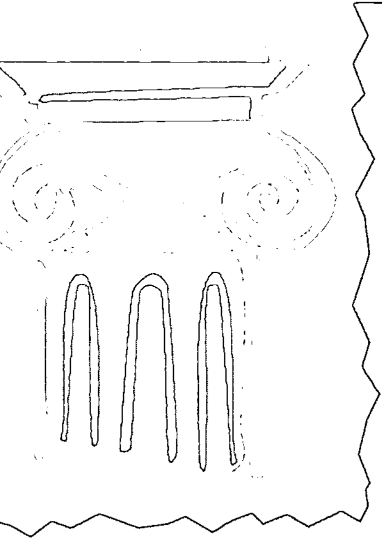
What are my responsibilities while I am in school?

While enrolled in school, you must notify your school's financial aid office and the Direct Loan Servicing Center if any of the following events takes place:

- You reduce your enrollment status to less than half time.
- You withdraw from school.
- You stop attending classes.
- You fail to reenroll for any term.
- You have a change in your expected graduation date.
- You change your name and/or local or permanent address.



Remember, if you are having trouble making your payments, call the Direct Loan Servicing Center.



What should I do about my loan if I am a transfer student?

If you transfer to another school and you will be enrolled at least half time, contact the Direct Loan Servicing Center to request an in-school deferment. (You are not eligible for this deferment if you are enrolled less than half time.) When you receive the deferment form, complete the borrower's section and submit the form to your current school. The school will complete the form and return it to the Servicing Center.

If you do not complete the in-school deferment form, your loans will enter repayment and you may unintentionally default.

If you still owe money on any other federal student loans (including Federal Family Education Loans and Federal Perkins Loans), contact your lender or its servicer to get an in-school deferment form. Complete and return the form to your school, then you can return it to your lender.

Remember to maintain contact with the Direct Loan Servicing Center and other holders of your education loans (if applicable) until all your loans are repaid.

If you transfer to another school and you will be enrolled at least half time, contact the Direct Loan Servicing Center to request an in-school deferment.

Budgeting Your Money

Many students start college or career school having little or no personal experience with loans, credit cards, living expenses, or budgeting. However, understanding and practicing effective money management will help you while you are in school and after you leave school.

What is budgeting?

Budgeting is the process of planning for the most effective use of your financial resources by defining your expected monthly expenses (such as rent, groceries, telephone, and student loan payments) and the resources you expect to have available (such as your earnings) to pay those expenses.

How does the school calculate my cost of attendance?

When your school determined your federal financial aid award, it used a standard budget to estimate the expenses you would incur while attending school. This expense estimate is referred to as your cost of attendance (COA). The school's COA must meet federal government requirements for estimating students' expenses.

The dollar figure the school used to determine your financial need was equal to the school's estimated COA minus your Expected Family Contribution (EFC). To determine your eligibility for a Direct Subsidized Loan, the school also subtracted any other financial aid you will be receiving.

Eligibility for a Direct Unsubsidized Loan is determined differently—your EFC is not taken into account in the calculation.

The school's COA is likely to be a fairly good estimate of your expenses. However, you might spend more or less than the school estimates on variable expenses. Tuition and fees are fixed costs that are likely to remain the same for the entire school year; but some expenses, such as books and supplies, room and board, transportation, and personal expenses, are variable ones. For example, you might reduce housing expenses by sharing an off-campus apartment with a roommate or reduce book expenses by purchasing used textbooks.

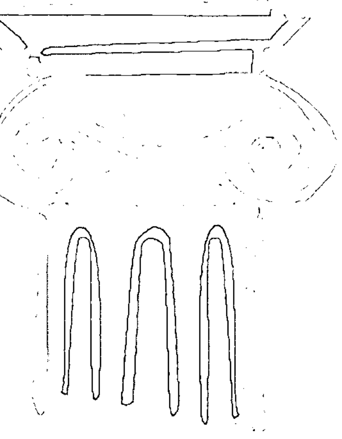
How can I reduce the amount I need to borrow?

If you can reduce your expenses to an amount less than the school's estimated COA, you might not need to borrow as much as the school has awarded you. It's a wise idea to borrow only what you need.

You do not have to accept the full amount of the loan for which you are eligible. It is better to return or cancel part or all of a loan if you do not need it. Contact your school to find out how to return or turn down part or all of a loan.

If you borrow less than the school awarded you, you might have lower monthly payments when you repay the loan. This will leave you more money for transportation, housing, and other kinds of expenses associated with beginning your career.

COA minus EFC and Other Financial Aid equals Your Loan Eligibility



A budget will help you keep track of your resources and your expenses.

Another way to reduce what you need to borrow is to identify non-loan sources of financial assistance. This money may not have to be repaid or accumulate interest. Some alternatives to borrowing are listed below:

Family and Friends: You might have relatives and friends who are willing and able to help you. An extra $10 or $15 a week from a family member or friend can add up over a period of months or years.

Special Scholarships: Many organizations award special scholarships. It may not be easy to find scholarships for which you qualify; however, the effort you put into finding them can really pay off. Remember that every little bit helps, and these monies do not need to be repaid.

You should check with the financial aid office about institutional and non-institutional scholarships and how to apply for them.

Some other places to look for ideas and assistance on scholarships are:

- Library reference books and computer programs,
- Your employer or your parents' employers, and
- Civic and social organizations in which you or your relatives have membership.

Part-time Employment: A sure way to help pay for college and avoid excess borrowing is to work part-time. Two reasons to opt for part-time employment are:

- Working can provide you with valuable experience and skills needed for a career.
- A part-time job provides a steady income that can help pay for rent, groceries, and other expenses.

How do I set up my budget?

The worksheet on page 16 will help you create a budget for school expenses and assess the resources you have to meet those expenses. You may also try the interactive budget calculators available on the Direct Loan web site (www.ed.gov/DirectLoan/BudgetCalc/Budget.html).

After establishing a budget, you need to monitor your actual expenditures so that you can make any needed adjustments in your spending before finding yourself in a financial crisis.

The three main steps in creating an in-school budget are:

1. Calculate your total expenses. First, estimate your total yearly expenses. Tuition and fees are fixed cost items, but costs such as books and supplies are variable and can be more easily reduced. Your total yearly expenses can be calculated on the basis of 9 months or 12 months.

- If you live on campus and go home for the summer, a 9-month budget might be more appropriate.
- If you are a commuting student who works year-round, a 12-month budget might be the most useful.

When using the worksheet, remember that all the expenses and resources you are comparing should be for the same period of time, 9 months or 12 months.

To determine your expenses, you will need to begin by compiling basic financial information. Your checkbook, school bills, and other monthly bills are a good place to start.

Keep a day-to-day record of other expenses, such as personal items, clothing, and entertainment, for a month or so to help you to make reasonable estimates.

2. Calculate your total resources (income). To estimate your total available income for the year, you will need to consider all of your resources. In calculating your resources, use the same year length that you used when figuring your expenses—either 9 months or 12 months.

- Include family assistance, grants and scholarships, savings, earnings, loans, and any other income.
- If you work during summer vacation, you should include savings from those earnings as a part of your resources for the next year.

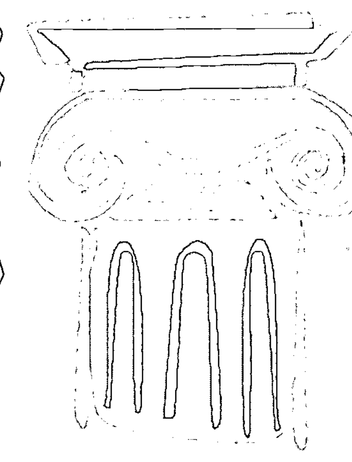
Your financial aid award letter, pay stubs, and bank account statements will help you calculate your available resources.

3. Determine the balance. The difference between your available resources and your expenses (resources minus expenses) determines your balance. Figuring the balance helps you determine if you need all the money you are allowed to borrow.

If your balance is a negative dollar amount—in other words, your resources are less than your expenses—explore possible new financial resources and reevaluate your expenses to determine how they can be reduced. Many expenses depend on individual life-styles and can be adjusted to reflect your available resources. For instance:

- It might be less expensive to live at home with your parents than to move into campus housing.
- If you live off campus, it will be less expensive to share housing with roommates than live alone.
- Cooking in can be inexpensive compared to eating meals out.

If your total resources are greater than your total expenses—in other words, the balance is a positive dollar amount—then you should see your school's financial aid administrator about the possibility of reducing your loan amount, even if you have already received some of the money. Remember that if you can lower the amount you borrow now, you will have less to repay later.



Remember that if you can lower the amount you borrow now, you will have less to repay later.

Budget Planning Worksheet

Estimated Expenses	Monthly Amount	Yearly Amount	Estimated Income	Monthly Amount	Yearly Amount
Education			Family Contribution		
Tuition			Your Parents		
Books			You		
Fees			Friends/Relatives		
Supplies					
			Financial Assistance		
Housing			Summer Job Savings		
Dormitory/Rent			Other Savings		
Utilities					
Telephone			Non-Taxable Income		
			AFDC		
Food			Veterans Benefits		
Board Plan			Social Security		
Personal			Other		
Transportation			Financial Aid Grants		
Bus/Train/Air			Federal Pell Grant		
Commuting			FSEOG		
Car Repair/Insurance			State Grant		
			Institutional Grant		
Health					
Insurance			Federal Direct Loans		
Doctors			Subsidized Stafford/Ford		
Prescriptions			Unsubsidized Stafford/Ford		
Personal/Miscellaneous			Loans		
Laundry/Cleaning			Federal Perkins		
Drug Store Items			Institutional		
			State		
Entertainment			Other		
Movies/Concerts					
Other			Scholarships		
			Institutional		
In-School Interest Payments			Private		
Direct Unsubsidized Loan					
			Employment		
Dependent Care			Federal Work-Study		
			Institutional		
Emergencies			Co-op Education		
			Off-Campus		
Other					
			Other Income/Recources		
TOTAL EXPENSES			TOTAL INCOME		

(Your Total Income Minus Your Total Expenses) = **Your Balance**

Review of Critical Information

The following questions are designed to help you review what you have learned about Direct Subsidized and Direct Unsubsidized Loans. Answers to some of these questions can be found in your promissory note and in the borrowers' rights and responsibilities summary statement in this *Borrowers' Guide*. Write your answers below or on a separate piece of paper, then check your answers with the key at the foot of the page.

1. What is the interest rate on my Direct Loan(s)?

2. What is the total amount of Direct Loans I have borrowed?

   Direct Subsidized Loan........................ $ ____________

   Direct Unsubsidized Loan.................... $ ____________

   Total... $______________

3. Name three reasons that loan deferments would be granted.

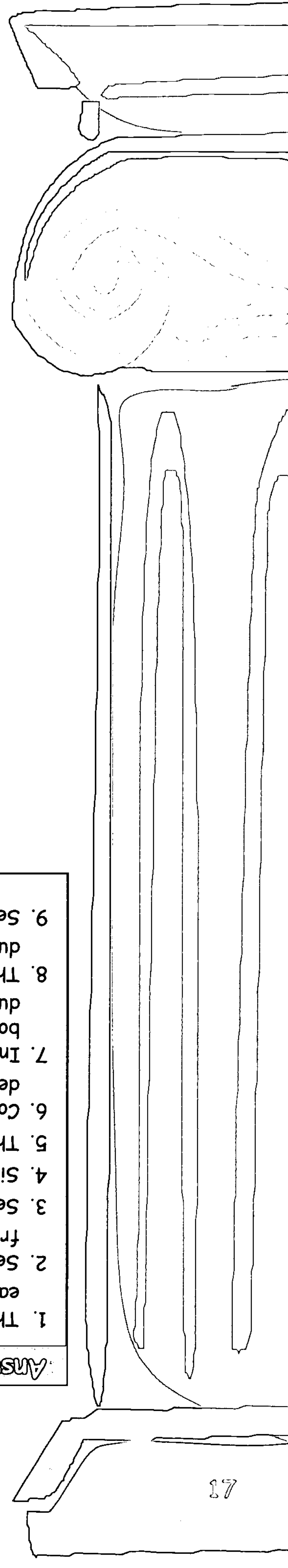
4. The grace period for my loan(s) is _____ months.

5. When does my grace period begin?

6. As a Direct Loan borrower, if I transfer to another school, I should do the following:

7. When is a borrower charged interest on a Direct Unsubsidized Loan?

8. When will I begin repaying my Direct Subsidized or Unsubsidized Loan?



Answer Key

1. The interest rate will never exceed 8.25 percent, but the actual percentage rate may change each year on July 1.
2. See your Loan History Worksheet, your disclosure statement(s), or your recent statement from the Direct Loan Servicing Center.
3. See the Deferment section of this brochure.
4. Six.
5. The day after I graduate or drop below half-time enrollment status.
6. Contact the Direct Loan Servicing Center to request a loan deferment form and apply for a deferment.
7. Interest is charged on a Direct Unsubsidized Loan throughout the life of the loan—while the borrower is in school, from the day of disbursement, during the six month grace period, and during periods of deferment and forbearance.
8. The repayment period begins the day after my grace period ends. My first payment will be due within 60 days after the grace period ends.
9. See Consequences of Default section of this guide.

Loan History Worksheet

Loan Name	Loan Period	Interest Rate	Loan Amounts	Loan Fees	Disbursement Dates	Disbursement Amounts
Direct Subsidized	8/96-5/97	8.25%	$2,625	$105	9/1/96 1/15/97	$1,260 $1,260

Sample Entry

Important Things You Should Find Out

- ☐ What is the average indebtedness and average monthly payment amount for all students who have borrowed Direct Loans to attend my school or enroll in my program of study?

- ☐ Where can I find a copy of my school's refund and repayment policies?

- ☐ Where can I find a copy of my school's standards of satisfactory academic progress?

- ☐ Where should I report address and name changes to update my official records at my school?

- ☐ What is the telephone number of my school's financial aid office and/or student loan office?

- ☐ How and when will my school make Direct Loan disbursements to me?

- ☐ What is the address and toll-free telephone number for the U.S. Department of Education's Direct Loan Servicing Center location that services my loan account? (See any correspondence you receive from the Servicing Center.)

- ☐ What is the telephone number for the Direct Loan Consolidation Center for information about in-school consolidation?

- ☐ What is the address where prepayments or interest payments are sent? (See your billing statements.)

- ☐ What is the U.S. Department of Education's web site address?

Notes

Rights and Responsibilities Summary Checklist

I understand that I have a right to the following: (Check off each box as you read.)

- ❑ Written information on my loan obligations and information on my rights and responsibilities as a borrower
- ❑ A grace period and an explanation of what this means
- ❑ A disclosure statement, received before I begin to repay my loan, that includes information about interest rates, fees, the balance I owe, and the number of payments
- ❑ Deferment of repayment for certain defined periods, if I qualify and if I request it
- ❑ Forbearance, if I qualify and if I request it
- ❑ Prepayment of my loan in whole or in part any time without an early-repayment penalty
- ❑ A copy of my promissory note either before or at the time my loan is disbursed
- ❑ Documentation that my loan(s) are paid in full

I understand I am responsible for:

- ❑ Attending exit counseling before I leave school or drop below half-time enrollment
- ❑ Repaying my loan even if I do not complete my academic program (under certain circumstances), I am dissatisfied with the education I received, or I am unable to find employment after I graduate
- ❑ Notifying my school and the Direct Loan Servicing Center if I:
  - ❑ Move/change my address
  - ❑ Change my name
  - ❑ Withdraw from school or drop below half-time enrollment
  - ❑ Transfer to another school
  - ❑ Fail to enroll or reenroll in school for the period for which the loan was intended
  - ❑ Change my expected date of graduation
  - ❑ Graduate
- ❑ Making monthly payments on my loan(s) after I leave school, unless I have a deferment or a forbearance
- ❑ Notifying the U.S. Department of Education's Direct Loan Servicing Center of anything that might alter my eligibility for an existing deferment

I have received entrance counseling materials for Direct Subsidized Loan and Direct Unsubsidized Loan borrowers. I have read and I understand my rights and responsibilities as a borrower. I also understand that, as a condition of this loan, I must attend classes and make satisfactory academic progress as defined by my school.

I understand that I have received a loan(s) from the federal government that must be repaid.

____

Student's Name (please print) Social Security Number

____

Student's Signature Date

Common Loan Terms

Academic year	The measure of the academic work to be accomplished by a student each year as defined by the school. For instance, at a school that uses terms, the academic year must contain at least 30 weeks of instructional time in which a full-time student is expected to complete at least 24 semester or trimester hours, 36 quarter hours, or 900 clock hours.
Borrower	Person responsible for repaying a loan who has signed and agreed to the terms in the promissory note.
Capitalizing interest	Adding unpaid accumulated interest to the loan principal. Capitalizing interest increases the principal amount of the loan and, therefore, the total cost of the loan.
Default	Failure to repay a loan in accordance with the terms of the promissory note.
Deferment	The temporary postponement of loan payments.
Delinquency	This occurs when payments are late or missed, as specified in the terms of the promissory note and the selected repayment plan.
Disbursement	When the school pays loan proceeds to the student or parent borrower.
Discharge (cancellation)	The release of borrowers from their obligations to repay their Direct Loans. Borrowers must meet certain requirements to be eligible for discharges.
Disclosure statement	Statement of the actual cost of the loan, including the interest costs and the loan fee.
Direct Loan Servicing Center	The U.S. Department of Education's agent contracted to collect Direct Loans and handle deferments, repayment options, and consolidation.
Federal Direct Loan Program	The William D. Ford Federal Direct Loan Program, also referred to as Direct Loan Program, is a federal program that provides loans to student and parent borrowers directly through the U.S. Department of Education. The loans are Federal Direct Stafford/Ford Loans, Federal Direct Unsubsidized Stafford/Ford Loans, Federal Direct PLUS Loans, and Federal Direct Consolidation Loans.
Federal Direct Subsidized Stafford/Ford Loan	Also referred to as Direct Subsidized Loan. A federally financed and subsidized student loan made on the basis of the student's financial need and other specific eligibility requirements. The federal government does not charge interest on these loans while borrowers are enrolled at least half time, during a six-month grace period, or during authorized periods of deferment.

A Loan Fee is an expense of borrowing deducted proportionately from each loan disbursement.

Federal Direct Unsubsidized Stafford/Ford Loan — Also referred to as Direct Unsubsidized Loan. A federally financed student loan made to students meeting specific eligibility requirements. Interest is charged throughout the life of the loan. The borrower may choose to pay the interest charged on the loan or allow the interest to be capitalized (added to the loan principal).

Forbearance — An arrangement to postpone or reduce a borrower's monthly payment amount for a limited and specified period, or to extend the repayment period. The borrower is charged interest during a forbearance.

Grace period — A six-month period before the first payment must be made on a Direct Subsidized or Direct Unsubsidized Loan. The grace period starts the day after a borrower ceases to be enrolled at least half time. During the grace period on a Direct Unsubsidized Loan, accumulating interest must be paid or it will be capitalized.

Interest — A loan expense charged by the lender and paid by the borrower for the use of borrowed money. The expense is calculated as a percentage of the principal amount (loan amount) borrowed.

Loan — Money borrowed that must be repaid.

Loan fee — An expense of borrowing deducted proportionately from each loan disbursement.

Loan postponement — See deferment and forbearance

Loan principal — The total sum of money borrowed.

Prepayment — Any amount paid on a loan by the borrower before it is required to be paid under the terms of the promissory note. There is never a penalty for prepaying principal or interest on Direct Loans.

Promissory note — A legally binding contract between a lender and a borrower. The promissory note contains the terms and conditions of the loan, including how and when the loan must be repaid.

Repayment schedule — A statement provided by the Direct Loan Servicing Center to the borrower that lists the amount borrowed, the amount of monthly payments, and the date payments are due.

Variable interest — Rate of interest on a loan that is tied to a stated index and changes annually, every July 1, as the index changes.

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We Help Put America Through School

U.S. Department of Education
Office of Student Financial Assistance

www.ed.gov/DirectLoan

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