Undergraduate Loan Options

Direct Subsidized Loan

- Federal student loans awarded on the basis of financial need that is not met by Pell Grants, Federal Supplemental Educational Opportunity Grants or other financial aid. Financial need is determined by completion of the Free Application for Federal Student Aid (FAFSA).
- Students have six months after graduating, leaving school or dropping below half-time status before beginning repayment. (This is called the grace period.)
- The student does not have to pay any principal while in school and the government pays the interest during this time. The same rules also apply during the grace period and during an authorized period of deferment. However, for Direct Subsidized Loans made on or after July 1, 2012 and before July 1, 2014, the interest subsidy provided during the six-month grace period was eliminated.
- Interest rate: Fixed at 3.76% for subsidized loans first disbursed between 7/1/2016 and 6/30/2017.
- Current loan limits: $3,500 (first year), $4,500 (second year), $5,500 (third and fourth years), plus $2,000 of additional **unsubsidized** Direct Loan each year; maximum amount for dependent undergraduate students (total) = $19,000 (**subsidized)** + $8,000 of total additional **unsubsidized** Direct Loan. **Independent undergraduates and dependent students whose parents cannot get PLUS loans may be eligible to borrow additional funds**.

Direct Unsubsidized Loan

- NOT awarded on the basis of financial need but the FAFSA **must** be filed in order to obtain this loan; there is no qualifying income for parents or students; the student must be enrolled at least half-time.
- Unlike a subsidized Direct Loan, the student is charged interest from the time the loan is disbursed until it is paid in full, including in-school, grace and deferment periods. However, students typically have the option of compounding interest during these periods and adding that amount to the loan principal.
- Interest rate: Fixed at 3.76% for unsubsidized loans first disbursed between 7/1/2016 and 6/30/2017.
- Current loan limits: $5,500 (first year), $6,500 (second year), $7,500 (third and fourth years); maximum amount for dependent undergraduate students (total) = $27,000 (minus any subsidized amounts). **Independent undergraduates and dependent students whose parents cannot get PLUS loans may be eligible to borrow additional funds**.

Federal Perkins Loan

- Low interest rate loans available through colleges and universities for students with exceptional financial need, as determined by completion of the FAFSA. Loan availability is dependent upon colleges' Perkins resources, the timing of students' FAFSA filings (the earlier the better) and students' levels of financial need. Not all schools participate in the Federal Perkins Loan program. You should check with your school's financial aid office to see if your school participates.
- Students have nine months after graduating, leaving school or dropping below half-time status before beginning repayment. (This is called the grace period.)
- Perkins Loans are considered subsidized federal loans. The student will not have to pay any principal while in school and the government pays the interest during this time. The same rules also apply during the grace period and during an authorized period of deferment.
- Interest rate: Fixed at 5.0%.
- Current loan limits: $5,500 per year of undergraduate study; maximum amount for undergraduate students (total) = $27,500.

Direct PLUS Loan

- Loans available to parents who are creditworthy. (Student must be a dependent undergraduate student enrolled at least half-time for parent PLUS borrowing.) Students whose parents cannot obtain a PLUS loan may be eligible to take out additional funds through the Direct Loan program.
- Annual borrowing limit = student's cost of attendance minus any other financial aid received.
- Interest rate: Fixed at 6.31% for subsidized loans first disbursed between 7/1/2016 and 6/30/2017.
- Historically, there have been no grace periods for PLUS loans and repayment usually begins once your loan is fully disbursed. However, parents may defer PLUS loan payments while the student on whose behalf they borrowed money is in school and for six months after the student graduates; can also be deferred if the parents themselves are enrolled in college.

For more information, call the U.S. Department of Education at 1-800-433-3243 (or the college you plan to attend). Also, the U.S. Department of Education's resource guide is available in English & Spanish at http://studentaid.ed.gov/students/publications/student_guide/index.html

Private loans through third-party lenders (e.g., loan agencies, banks and credit unions) also are available. Additionally, some colleges have private loan funds available for students who attend their institutions.

What are some tips when considering loans?

- **Only borrow what you need.** Many students take out much more loan debt than they need. Think very carefully about what you will use the money for and ask yourself: "Do I really need this loan?" And if you say yes, then you need to be prepared to answer: "Exactly how much do I need?"

- **Truly understand what you are agreeing to** when you sign the Promissory Note. Know the terms and conditions of the loan such as interest rate, when you will have to start paying back the loan, etc. For instance, some loans go into repayment sooner than others, such as the PLUS loan. Also, many students do not understand interest accumulation. Finaid.org gives a helpful tip when trying to figure a ballpark interest accumulation: your total interest paid will be slightly higher than the product of the amount borrowed multiplied by the interest rate and the length of the loan term in years and divided by 2. So for a 10-year, $10,000 loan at 10% interest, this would yield an estimated $5,000 in interest over the lifetime of the loan. Ex: (10 x 10,000 x .10)/2 = $5,000.

- **Research your probable earning potential** upon graduation so that you can see the big picture. Will you be earning enough to afford your monthly loan payments? You can use the U.S. Department of Labor's website (www.onetonline.org) to see job outlooks, descriptions, salary information, and more.

- **Take a financial awareness course.** Some colleges offer these or even require them. If you take out a federal loan, you will be required to do entrance and exit counseling. But don't wait for it to be required…take a class or go to the Department of Education's website, www.studentloans.gov, so you can better understand the terms and conditions of loans you have already taken out, build a budget so you can see your repayment amounts in conjunction with all of your other financial responsibilities (such as rent, utilities, car payment, etc.), set short and long-term goals, etc.

- **Are you/were you in the military?** The G.I. Bill and other military programs offer loan options that are not highlighted in the sections above. Check with your local veteran's services office to learn what options are available to you. You can also see the Financial Aid for Veterans section of the Indiana *College Costs Estimator* to learn more.

- **Read college financial aid award letters and Net Price Calculators carefully** before you agree to attend the college/university. How much loan debt do they show you incurring? If it is not clear from looking at the financial aid award letter or the Net Price Calculator, you should ask them. If the institution does show you incurring large amounts of loan debt, you will want to ask yourself if this school is the best option for you – particularly if your chosen career path is not one where you will be making a significant income. Remember, a college needs to be a good fit for you academically and socially, but also financially.