

The basics of student loans

Do you...

Understand student loans?

Know how you'll pay
back your student loan(s)?

Risks of not understanding student loans

Overborrowing

Borrowing more expensive
student loans than necessary

Find scholarships

Explore scholarship and free money sources. Do online scholarship searches. Don't be afraid to ask organizations that you or family members belong to if they have scholarship money available. A modest scholarship can help toward books and living expenses and can lessen the burden of student loan borrowing.

Know your options

Once you've searched for sources of free money, the next step is to complete the Free Application for Federal Student Aid (FAFSA). The information provided on the FAFSA is used by schools' financial aid offices to determine eligibility for grants, scholarships and student loans, also referred to as financial aid. Each school may have additional required forms. Once you know your eligibility for financial aid, and if you need to borrow to pay for school, review your student loan options carefully.

Federal student loans, funded by the federal government, offer fixed interest rates along with a variety of repayment and payment postponement options that make sense for many students. Private student loans, offered by banks and others, may also be an option, but check with your financial aid office for specifics.

For more information about the kinds of federal student loans available, the loan details and the annual award amounts, visit the Federal Student Aid website at <https://studentaid.ed.gov/types/loans>.

More on federal student loans

Federal loans available to students are federal Direct Stafford loans. These are offered by the federal government and are either subsidized or unsubsidized. The subsidized Stafford loan is need based, and interest (the amount the lender charges you to use their money) is paid by the federal government while you attend school and during the grace period. The unsubsidized Stafford loan starts accruing, or accumulating, interest immediately. The accrued, unpaid interest capitalizes (gets added to the original amount borrowed) six months after graduating, leaving school or dropping below half-time enrollment. You may pay the interest as it accumulates to avoid capitalization. This option makes sense if you have other income while you are in school. If not, consider borrowing less.

Borrow the least amount possible

Keeping student loan borrowing to a minimum is key to your financial health. Here are ways to stay in control:

- Borrow (for your entire college education) less than half of your expected starting salary once you finish school—for example, if you expect to make a salary of \$40,000, your total student loan debt should be less than \$20,000
- Live like a student while you're a student
- Minimize expenses

Manage your loans

Keep track of how much you borrow and from what sources. Start a student loan file where you keep promissory notes and other correspondence from your financial

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aid office and lenders. Track your federal student loan(s) online at the Federal Student Aid website <https://studentaid.ed.gov/login>. Login with the same FSA ID, which includes your username and password, used when you completed your FAFSA. Find or register for your FSA ID at <https://studentaid.ed.gov>. Good record keeping may lessen the burden of figuring it all out once you graduate.

Plan to repay

Once you graduate, leave school or drop below half time attendance, your federal student loan(s) enter a six-month grace period. Your grace period is the time to plan for repayment; to review the available repayment plans and to choose an option that suits your financial needs.

Repayment plans include: Standard, Graduated, Extended, Income-Contingent, Income-Based and Pay As You Earn. A Direct Consolidation Loan may also be an option. Find more information at <https://studentaid.ed.gov>.

In addition, there may be times when you have extenuating circumstances that will make repayment difficult or impossible.

Deferment and forbearance options exist for postponing payments. If you qualify,

consider these options carefully. Interest accrual and capitalization will cause your overall loan balance to increase. Contact your servicer(s) for information and visit <https://studentaid.ed.gov> to learn more.

About other loans

You may find there's a gap between the amount of financial aid you're eligible to receive (this includes federal Direct loans) and your cost of attendance as determined by your financial aid office. Once you've exhausted other funding options, such as scholarships and working part time, graduate and professional students may also consider the Grad PLUS loan. This is a federal loan that requires a credit check. Parents of undergraduate students may need to consider the Parent PLUS Loan and students may also need to consider private loans, offered by banks and other lending institutions.

Careful consideration and comparison of private loans should include:

- Interest rate
- Fees
- Capitalization policy and lender's willingness to grant deferment and forbearance for certain situations (e.g., economic hardship, in-school status, etc.)

KEEP TRACK OF YOUR STUDENT LOANS

Lender or servicer	Website and phone number	Type of loan	Amount borrowed	Interest rate	Loan term	Payment due date
Example: FedLoan Servicing	www.myfedloan.org 1-800-699-2908	Direct Subsidized	\$3,500	4.29%	10 years	12/31/17

ABOUT ECMC

Educational Credit Management Corporation (ECMC) is a nonprofit company providing services in support of higher education finance. We work to support college access and success, and we provide students with tools and resources for planning and paying for college. The Financial Awareness Basics (FAB) Series is designed to help you make informed decisions about your financial future.