

Undergraduate Study Guide: What You Need to Know About Federal Loans

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Key Points

- > Stafford loans (for students) and PLUS loans (for parents) are the two main government loan programs offered for college undergraduates.
- > The Stafford loan is the most affordable student loan available and should be your first financing option.
- > If you are awarded a federally subsidized Stafford loan, interest on your loan will not begin to accrue until after you graduate or leave school.



Government loans generally offer lower interest rates than private loans, making them the best place for you to begin your search for college financing. But they probably won't be your only stop on the funding trail—government loans are usually not enough to cover the entire cost of college.

There are two main types of federal loans offered under the Federal Family Education Loan Program (FFELP): **Stafford loans** (for students) and **PLUS loans** (for parents of undergraduate students). Both types of loans are offered through banks or other private lenders and guaranteed by agencies authorized by the federal government.

In addition to federal loans through banks and private lenders, the government offers an alternate program called the William D. Ford Federal Direct Loan Program. The Department of Education serves as the lender to offer student and parents Stafford, PLUS and consolidation loans. Colleges help administer the distribution and processing of the loan application and disbursement of loan funds.

Government loans are good options for students and parents because of their flexible repayment terms and fixed interest rates. It's important to remember that while private loans have their place in your overall funding picture, government loans may be the most sensible first step in your funding search.

Action Steps

- ✓ Apply for the Stafford loan before you consider any other financing; it's the most affordable loan option.
- ✓ Ask potential lenders if there are any discounts available on default fees. These are up-front savings that can't be taken away.
- ✓ Compare lender discounts for on-time or automatic payments. If you can live up to the terms, you could save a considerable amount over the years.



Federal Loans for Students and Parents

There are five main aspects to look at when applying for a federal loan: loan limits, interest rates, origination and default fees, repayment options and lender discounts.

	Stafford Loan	PLUS Loan
General Overview	<p>The Stafford loan is often the most affordable student loan you can get, and it should be the first financing option you consider.</p> <p>There are two types of Stafford loans: subsidized and unsubsidized.</p> <ul style="list-style-type: none"> ▪ Subsidized Stafford loans are based on need, and the federal government pays the interest on the loan while the student is in school. ▪ Unsubsidized Stafford loans are not need-based, and interest accrues from the time the loan is taken out. <p>Both types of Stafford loans require filing a FAFSA (Free Application for Federal Student Aid), and both let you elect to defer making payments until six months after you graduate or leave school.</p>	<p>Parents can use PLUS loans to borrow money to help meet the Expected Family Contribution for their child's undergraduate degree. PLUS loans are disbursed quickly so there's very little waiting before you get the money you need.</p> <p>PLUS Loans for Graduate and Professional Degree Students</p> <p>Graduate and professional degree students can also participate under the PLUS Loan Program. Students can borrow up to their cost of attendance, minus any financial aid they may receive from other federal education loan programs. The same terms and conditions apply for parent PLUS loans.</p>
Loan Limits	<p>The annual limit on Stafford loans depends on your status (dependent or independent) and whether your loan is subsidized or unsubsidized.</p> <p>For example, Stafford loan limits for a freshman are as follows:</p> <p>Dependent Student Annual Loan Limit: \$5,500*</p> <p>Independent Student Annual Loan Limit: \$9,500*</p> <p><i>* For subsidized and unsubsidized loans combined, loans disbursed July 1, 2008 or later.</i></p>	<p>A PLUS loan may allow you and your family to borrow up to the total cost of college attendance, minus other aid you receive.</p>

For information on loan limits for other school years, consult studentaid.ed.gov

Stafford Loan	PLUS Loan
<p>Interest Rates</p> <p>The government fixes the interest rates for Stafford loans on July 1 of each year, and it will stay the same for the life of your loan.</p> <p>For example:</p> <ul style="list-style-type: none"> ▪ For loans disbursed starting July 1, 2009 thru June 30, 2010: 5.60% interest for <u>subsidized</u> loans, 6.80% for <u>unsubsidized</u> ▪ In future years, for subsidized loans only, interest will be reduced: 4.50% (disbursements 7/1/10-6/30/11), 3.40% (disbursements 7/1/11-6/30/12) 	<p>The interest rate on PLUS loans is capped by the government. The interest on this type of loan may be tax deductible, making the PLUS loan an especially affordable option for your parents. They should consult a tax advisor for more information.</p> <p>The interest on a PLUS loan begins to accumulate immediately after funds are disbursed.</p>
<p>Origination Fee (paid to establish your loan)</p> <p>The federal government charges an origination fee on every Stafford loan, which may be passed along to the student borrower. This student origination fee is set by law at 0.50% for the 2009-2010 school year—and is scheduled to decrease to 0% next year. The fee is deducted from the loan proceeds when they are disbursed.</p>	<p>Similar to Stafford loans, the federal government charges an origination fee, which must be passed along to the parent borrower. The borrower origination fee is set by law at 3%. It is deducted from the loan proceeds when they are disbursed.</p>
<p>Default Fee (paid to insure against non-payment of your loan)</p> <p>The default fee (or guarantee fee) is 1% and protects the government in case you do not repay your loan.</p>	<p>The default fee (or guarantee fee) is 1% and protects the government in case you do not repay your loan.</p>
<p>Repayment Options</p> <p>You can defer payments until six months after you graduate from college or drop below half-time enrollment.</p> <p><i>Borrowing Tip: Don't sign any loan until you fully understand the repayment requirements and options.</i></p>	<p>Parent borrowers may defer their payments while their child is enrolled at least half time.</p>
<p>Lender Discounts (or Borrower Benefits)</p> <p>Some banks offer discounts on interest rates for paying Stafford loans using automatic payments from a bank account.</p>	<p>Some banks offer discounts on interest rates for paying PLUS loans using automatic payments from a bank account.</p>

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