FINANCIAL WELLNESS @ DU

Brennan School of Business

DOMINICAN UNIVERSITY

FAQS ABOUT STUDENT LOANS

1) HOW DO STUDENT LOANS WORK (INTEREST, HOW DO YOU GET THE MONEY, ETC.)?

- A student loan is borrowed money that is to be repaid overtime plus interest, which is used to pay for college costs.
- Interest is a fee charged for using someone's money. It is expressed as a percentage of the loan balance.
  - Fixed interest rate does not change over the life of a loan
  - Variable interest rate will change periodically (monthly, quarterly, yearly)

2) WHAT TYPES OF FEDERAL LOANS ARE AVAILABLE?

- Direct Subsidized Loans -- for eligible undergraduate students demonstrating financial need to cover the cost of their education.
- Direct Unsubsidized Loans -- for eligible undergraduate, graduate, and professional students. Eligibility is NOT based on financial need.
- Direct PLUS Loans -- for graduate or professional students and parents of dependent undergraduate students in which the loan helps pay for education expenses that other financial aid does not cover. Eligibility not based on financial need. A credit check is required and borrowers with credit history must meet requirements to qualify.
- Direct Consolidation Loans -- allows for students to combine all eligible federal student loans into a single loan with a single servicer.

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3) HOW DO I APPLY FOR STUDENT LOANS?

- Applying for federal student loans includes filing FAFSA. Loans will then be obtained through the financial aid office of the college.
- Applying for a private student loan requires the borrower to contact the lender.
- Eligibility for private student loans tends to be based on credit. For those who do not have a long enough/good enough credit history need a cosigner. The cosigner is then also held responsible for repaying the debt.
- After loans are approved there is a promissory note that the borrower must sign. It describes the terms and conditions for the loan.

4) WHO PROVIDES THEM?

- Many student loans come from the federal government -- the U.S. Department of Education's Federal Direct Loan Program.
- Others come from private lenders -- banks, financial institutions, state governments, and colleges.
- Federal student loans tend to be cheaper, more available, and have better terms to repayment.

5) HOW MUCH CAN I BORROW?

- Loan limits set the maximum amount that you can borrow.
- Loans can be good but too much can hurt you, so borrowing as little as possible is the best option.
- For federal loans:
    - Amount you can borrow depends on if you are an undergraduate, graduate, professional student, or a parent.
    - Undergraduate students maximum amount ranges from $5,500 to $12,500 per year depnding on your year in school and dependency status.
    - Graduate students can borrow up to $20,500 per year in Direct Unsubsidized Loans and Direct PLUS Loans can be used for the remainder of the college costs.
    - Parents of dependent undergraduate students can receive a Direct PLUS Loan for the remainder of the child's college costs.

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6) HOW DO I REPAY STUDENT LOANS?

- After graduating or dropping below half time enrollment, the borrower must start repaying.
- Some student loans offer a grace period of around 6 months before repayment begins.
- Standard repayment of federal loans are 10 year terms with equal monthly payments.
- Federal loans offer extended repayment (longer repayment term) and income dependent repayment (base the monthly payment on borrower's discretionary income).
- Lenders send borrowers a coupon book before repayment which the borrower must send in each month with the correct coupon.
- Another repayment option includes auto-debit (monthly payments are transferred from the borrower's bank account automatically to the lender). Some lenders include interest rate reduction for this option.

7) WHAT HAPPENS IF I HAVE DIFFICULTY PAYING MY STUDENT LOAN BACK?

- Borrowers who do not make a payment by the due date are considered "delinquent".
- Delinquent borrowers may be charged with late fees.
- Late payments as long as 120 days on private student loans and 360 days on federal student loans will cause the borrower to be in default.
- Borrowers in default can be charged with collection charges with up to 20% deducted from every payment. The government can also take up to 15% of wages and federal/state income tax refunds.