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Student Bulletin

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High School Edition

Manage Your Student Loan

Match Your Loan to Your Budget

Not all loans are the same. What determines cost?

Interest rate: Is the interest rate variable or fixed? If variable, do you expect the rate to increase? Can you decrease the interest rate if you pay on time over a certain amount of time?

Fees: A low interest rate can offset high processing (origination and guarantee) fees, and vice versa. Generally speaking, 4% in fees is equal to about 1% in interest.

Repayment terms: The amount of time you take to pay back a loan can influence the final cost, as well as the responsible party (student or parent). See below for more info on plans.

Federal student loans are generally less expensive than private loans, though a private loan may offer more flexible repayment terms and have a higher loan limit. The important thing is to figure out what sort of loan is best for you.

FastTip: *A great tool to use to compare loans is the Loan Analyzer offered on FinAid.org:* http://www.finaid.org/calculators/loananalyzer.phtml.

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Loan Problems? Ask For Help!

Avoid default! Loan default is generally what happens when you fail to make regular payments over a 270-day period. Consequences of default are very serious. What can this mean?

Lost eligibility for further federal aid: Don't jeopardize any future potential aid by defaulting on your current loan.

Immediate payment: You may have to pay the whole loan (principal and interest) immediately.

Collection agency involvement: You may get sent to collections, have to pay additional interest and fees (late, court and attorney) and collection costs (up to 18.5% of balance).

Damaged credit rating: Don't ruin your chances for a credit card, car loan or home mortgage, not to mention renting an apartment or applying for a job. Your default will remain on your credit report for up to seven years.

Garnished wages: Money may be taken out of your paycheck to pay your debt (up to 15%).

If you're having trouble making payments, don't wait! Ask for help from your loan holder or loan servicer right away.

News: New Fixed Interest Rates

On July 1, 2006, the interest rate for Federal Stafford loans increases to 6.8% and for Federal Family Education PLUS loans to 8.5%. It's expected that the rate for the Direct PLUS loan will also increase to 8.5%. All rates are fixed.

Repayment Options

Each repayment option offers varying degrees of flexibility, depending on the amount you borrowed and the loan type.

Standard Repayment Plan

Payment: Monthly payment is fixed (min. $50). One payment is equal to your total loan amount (principal + interest) divided by the number of months in your repayment period. The max number of months over which to pay is 120 months (10 yrs).
Advantages: Economical and predictable; keeps interest to a minimum.
Disadvantages: Monthly payment stays the same regardless of income.

Extended Repayment Plan

Payment: Same as the Standard Plan, except that students receive a longer period of time to pay off their loan (usually 12 to 30 years). The larger the loan amount, the more years you'll have to pay the loan back.
Advantages: Lower monthly payments than the Standard Plan.
Disadvantages: Increases the amount you pay in (with interest) over the life of the loan.

Graduated Repayment Plan

Payment: Repayment amount increases every two years until the loan is paid off (takes between 12 and 30 years). The larger the loan amount, the more years you'll have to pay the loan back.
Advantages: Monthly payments will be easier to manage at first; initial payments will be lower than the Standard Plan.
Disadvantage: You will end up paying more in interest. Also, without a stable or increasing income, you may have trouble as the monthly payments rise over time.

Income Contingent Plan

Payment: Your monthly payment is adjusted annually based on yearly income, family size, interest rate and loan amount. Your monthly payments will rise and fall in relation to your income.
Advantages: You usually have up to 25 years to repay. Any portion of the loan amount that has not been repaid up to this time is forgiven.
Disadvantages: After 25 years, the forgiven loan balance will be counted as income and is taxable. Parent loans are not eligible to be repaid with the income contingent plan.