WHAT ARE LOANS?

Know the basics when borrowing money for college

LOANS COST MONEY

A loan is an amount of money borrowed by a person from another person, bank or other financial institution.

A loan enables a student to have the money for tuition, or other necessary expenses now. The trade-off is that you have to pay more money back than you borrow. This is called interest on the loan.

Loans should be taken after all other financial options like grants, scholarships or gifts have been exhausted.

TYPES OF LOANS

Subsidized Federal Loans:
These are loans for undergraduate students that the government pays interest on while you are in college, provided you are in school at least half-time. These loans are need-based, usually low interest, with flexible payment plans. Subsidized Federal Loans may also have a certain amount of interest-free months, or “grace period” afterwards before you have to start paying them back. These loans are also called Direct Subsidized Loans or Subsidized Stafford Loans.

Unsubsidized Federal Loans:
These loans are for undergraduate and graduate students. They are not need-based and do accrue interest while you are in college. Repayment begins after graduation, if your course load drops below a certain number, or you stop going to college. These loans are also called Direct Unsubsidized Loans or Unsubsidized Stafford Loans.

For both Subsidized and Unsubsidized Federal Loans, the school decides the loan amount you can borrow based on the cost of attendance and other aid you receive. Loans cannot exceed the cost of attendance.

Perkins Loans:
These are Federal loans that are no longer awarded. If you have questions about Perkins loans that you have already been awarded, contact your loan service provider or the school which awarded you the loan.

PLUS Loans:
Originally called PLUS standing for Parent Loans for Undergraduate Students, these loans are now also available to graduate and professional students at some schools. The US Department of Education acts as the lender and pays the money directly to the school on your behalf.

PLUS Loans (continued):
PLUS Loans are approx. 8% interest loans that can be used to cover any costs of attendance minus other financial aid awarded. Undergraduate students need to be enrolled at least half-time. Interest starts accruing as soon as the loan is awarded. For undergraduate students who are still dependents of their parents, the parents will be the signers of the loan and will need to submit their financial info and a credit check. If the parent has been denied a PLUS loan, the student may be eligible for an additional $4,000 in unsubsidized loans per year.

Private Loans:
Usually from banks or other financial institutions. Private loans usually have higher interest rates and are based upon the borrower’s credit history. Private loans can be used for a variety of expenses, such as tuition, housing, books, etc.

LOAN REPAYMENT

When you start to pay your loan back to the lender, that is called repayment.

With some loans, repayment may have to start right after graduation, or as soon as you take time out of school or stop taking a certain number of classes.

Some loans you may be able to defer payment for a period of time, with or without interest.

When most people begin repayment of their student loans they will do it in a monthly payment. The monthly payment is a mix of the principal loan amount (what you actually borrowed) plus an interest fee (which could vary depending on how quickly you pay the loan back).

Loans can always be paid back sooner than originally agreed upon so that less interest had to be paid on the principal amount borrowed. Some loans have early repayment fees.

Make sure you understand the repayment fees and schedule for any loan you are taking.

There is so much more information that is helpful in navigating this process.

Be sure to check out the following webpages:

Information from The Department of Education on Federal Student Aid:

1. Understanding Financial Aid
2. Types of Financial Aid
3. Understand and Estimate Loan Repayment