



FOR MORE INFORMATION

*The U.S. Department of Education has several Direct Loan Servicing Center locations with separate mailing addresses and telephone numbers. The address and telephone number of the location servicing a borrower's loan will appear on all correspondence the Center sends after the borrower receives a Direct Loan. **Borrowers should always use that information if they have questions about their Direct Loans.** Borrowers who misplace that information can call this toll-free number for help:*

1-888-447-4460

*The TDD number (for the hearing-impaired **ONLY**) is*

1-800-730-8913



Direct Loans: A Better Way to Borrow was updated in March 1997.



What is the William D. Ford Federal Direct Loan Program?

This program, called “Direct Loans” for short, provides another way to borrow money to pay for education after high school. Schools that participate in Direct Loans receive loan funds directly from the U.S. Department of Education and disburse them to eligible students. (Under the Federal Family Education Loan [FFEL] Program, private lenders and guaranty agencies make the loans.)

Every school does not participate in Direct Loans. Students should check to see if the schools they’re interested in participate.





What loans are available under the William D. Ford Federal Direct Loan Program?

There are four kinds of loans:

- ▶ **Federal Direct Stafford/Ford Loans**—also called Direct Subsidized Loans. The federal government pays the interest on these loans while students are in school at least half time and during certain other times, such as grace periods and deferments (postponements of repayment). Students must demonstrate financial need to receive this type of loan. (Schools determine financial need based on the information provided on a financial aid application.)
- ▶ **Federal Direct Unsubsidized Stafford/Ford Loans**—also called Direct Unsubsidized Loans. Students can get these loans regardless of financial need but will have to pay all interest charges.

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- ▶ **Federal Direct PLUS Loans**—for parents of dependent students to pay for their children’s educations. Parents are responsible for all interest charges.
 - ▶ **Federal Direct Consolidation Loans**—one or more federal education loans combined into one new Direct Loan. Only one monthly payment is made to the U.S. Department of Education. In certain circumstances, students who have loans under the FFEL Program may consolidate them into Direct Loans.

What are the advantages of Direct Loans for student and parent borrowers?

The Direct Loan Program provides a simpler and much faster way to obtain loans. Borrowers receive funds from their schools in days.

There is only one lender—the U.S. Department of Education. The Department will not sell the loans, which means the student or parent will always make payments to one



place—the Department’s Direct Loan Servicing Center. Even if a student receives loans at different schools, he or she will deal with only one Servicing Center. Having one contact point means borrowers will always know where to send their payments and where to call or write if they have questions about their loans. Plus, borrowers will not have to seek deferments or forbearances (postponements of repayment) from multiple lenders and/or guaranty agencies.

Another Direct Loan advantage is that students and parents have repayment options; they can pick the repayment method that best fits their financial circumstances (see page 9 for more information). Also, students and parents are not restricted to one repayment plan for the life of their loans; they can change plans if their financial circumstances change. Flexible repayment options and a simple repayment process reduce the chance of default.



How do students and parents apply for Direct Loans?

Students fill out a single application—the *Free Application for Federal Student Aid* (FAFSA)—or use the electronic *FAFSA Express*. Either way, students complete only one application—the same one used for most other student aid.

The U.S. Department of Education uses the FAFSA information to determine each student's Expected Family Contribution (EFC), the amount the student's family is expected to contribute toward college costs. The EFC is used in determining financial need, which is important in awarding Direct Subsidized Loans.

To apply for a Federal Direct PLUS Loan, one of the student's parents must complete a Federal Direct PLUS Loan application, available at the student's school.

Before receiving any loan funds, students and parents will receive promissory notes to complete and sign. The promissory note is the legal document stating the borrower's obligation to repay the loan. The note contains important information about the loan's terms and conditions. Schools will provide counseling on loan terms and conditions.

How much can students and parents borrow?

The **maximum** yearly amount a student can borrow for Direct Subsidized and Direct Unsubsidized Loans is

| | <i>Dependent Student¹</i> | <i>Independent Student²</i> |
|---------------------------------------|--------------------------------------|--|
| <i>1st year undergraduate</i> | \$2,625 | \$6,625 |
| <i>2nd year undergraduate</i> | 3,500 | 7,500 |
| <i>Subsequent years undergraduate</i> | 5,500 | 10,500 |
| <i>Graduate/ Professional</i> | N/A | 18,500 |

¹A dependent student is one who does not meet any of the criteria for an independent student.

²An independent student is one of the following: a student who is at least 24 years old, married, a graduate or professional student, a veteran, an orphan, a ward of the court, or someone with legal dependents other than a spouse.



The amount a student can borrow is also limited by the student's school costs, other financial aid the student may receive, and (in the case of Direct Subsidized Loans), the student's EFC—see page 5.

The **overall** limits for all subsidized and unsubsidized loans (including a combination of FFELs and Direct Loans) are

- \$23,000 for a dependent undergraduate student
- \$46,000 for an independent undergraduate student (and certain dependent students)
- \$138,500 for a graduate or professional student (including loans for undergraduate study)

Under the Direct PLUS Loan Program, the parent of a dependent student can borrow up to the cost of the student's education minus other financial aid the student receives. If a parent is not allowed to borrow a Direct PLUS Loan because of an adverse credit history, the dependent student may be eligible to borrow additional amounts in the form of Direct Unsubsidized Loans, up to the limits for independent students.



Is there a charge for these loans?

All Direct Loans except Direct Consolidation Loans have an origination fee of 4 percent, subtracted proportionately from each disbursement. This money goes to the federal government to help reduce the cost of supporting these low-interest loans.

What is the interest rate for Direct Loans?

Interest rates are variable and are adjusted each year on July 1. The current **maximum** interest rate for Direct Subsidized and Unsubsidized Loans is 8.25 percent. Interest rates for these loans also depend on when the loan was disbursed and whether the loan is in an in-school, grace, or deferment period. Borrowers can talk to their financial aid administrators to find out the current rate. For Direct PLUS Loans, the current **maximum** interest rate is 9 percent.



How are loans repaid? Can borrowers arrange for affordable monthly payments?

There are four ways to repay a Direct Subsidized Loan or Direct Unsubsidized Loan. Direct PLUS Loan borrowers may choose from the first **three** options listed. Borrowers can choose a plan to fit their financial circumstances and, as mentioned earlier, can change plans if their financial circumstances change.

To find out more about repayment options before receiving a Direct Loan, borrowers can contact their schools' financial aid offices or the Federal Student Aid Information Center: 1-800-4 FED AID (1-800-433-3243).

These are the four repayment options :

- The **Standard Repayment Plan** requires fixed monthly payments (at least \$50) over a fixed period of time (up to 10 years). The length of the repayment period depends on the loan amount. This plan usually results in the lowest total interest paid because



the repayment period is shorter than under the other plans.

- ▶ The **Extended Repayment Plan** allows loan repayment to be extended over a period from generally 12 to 30 years, depending on the total amount borrowed. Borrowers still pay a fixed amount each month (at least \$50), but usually monthly payments will be less than under the Standard Repayment Plan. This plan may make repayment more manageable; however, borrowers usually will pay more interest because the repayment period is longer.
- ▶ The **Graduated Repayment Plan** allows payments to start out low and increase generally every two years. This plan may be helpful to borrowers whose incomes are low initially but will increase steadily. A borrower's monthly payments must be at least half, but may not be more than one-and-a-half, of what he or she would pay under Standard Repayment. As in the Extended Repayment Plan, the repayment



period will vary from generally 12 to 30 years, depending on the total amount borrowed. Again, monthly payments may be more manageable because they are lower, but borrowers usually will pay more interest because the repayment period is longer.

- ▶ The **Income Contingent Repayment Plan** bases monthly payments on adjusted gross income (AGI) and the total amount of Direct Loans borrowed. As income rises or falls each year, monthly payments will be adjusted accordingly. The required monthly payment will not exceed 20 percent of the borrower's discretionary income.³

Borrowers have up to 25 years to repay; after 25 years, any unpaid amount will be discharged but, under current law, borrowers must pay taxes on the amount discharged.

Income Contingent Repayment is not an option for Direct PLUS Loan borrowers.

³Discretionary income equals AGI minus an amount based on the poverty level for family size, as determined by the U.S. Department of Health and Human Services.



If, because of exceptional circumstances, a borrower cannot repay his or her loans using one of the repayment plans described, the Direct Loan Servicing Center may be able to offer an alternative plan. Such a plan would be provided only on a case-by-case basis.

Borrowers who have any questions about Direct Loans should contact a school's financial aid office or the Federal Student Aid Information Center: 1-800-4 FED AID (1-800-433-3243).