

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 current Federal Family Education Loan [FFEL] Program, loans must be made through private lenders and guaranty agencies.)

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 periods, such as grace and deferment (a postponement of repayment). Students must demonstrate financial need to receive this type of loan. (The school determines 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.



- ▶ **Federal Direct PLUS Loans**—for parents of dependent students to pay for their children's education. 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?

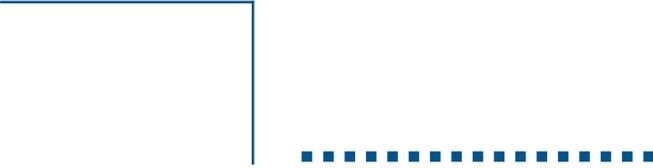
The Direct Loan Program provides a simpler and much faster way to obtain loans. Borrowers receive funds from their schools in days.

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 only 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.



Students and parents have several 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), the same application they use for most other student aid. Students can get FAFSAs from their schools. The U.S. Department of Education uses the information from the FAFSA to determine each student's Expected Family Contribution (EFC)—the amount the student's family is expected to contribute toward college costs. The school then uses the EFC to determine the financial aid each student needs, which is important in awarding Direct Subsidized Loans.

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



Note that 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 also gives important information about the loan, including terms and conditions. Schools will provide counseling on loan terms and conditions.

How much can students and parents borrow?

The **maximum** amount a student can borrow each year for Direct Subsidized and Direct Unsubsidized Loans is:

	<i>Dependent Student*</i>	<i>Independent Student**</i>
<i>1st year undergraduate</i>	\$2,625	\$6,625
<i>2nd year undergraduate</i>	3,500	7,500
<i>3rd & 4th year undergraduate</i>	5,500	10,500
<i>Graduate/ Professional</i>	N/A	18,500

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

**An 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 6.

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
- \$138,500 for a graduate or professional student (including loans for undergraduate study)

The parent of a dependent student can borrow up to the cost of the student's education minus other financial aid the student receives.

Note: All Direct Loans except Direct Consolidation Loans have an origination fee of 4 percent that is subtracted proportionately from each loan 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 *maximum* interest rate for Direct Subsidized and Unsubsidized Loans is 8.25 percent. (In 1995-96, the interest rate was 8.25 percent.) For Direct PLUS Loans, the maximum interest rate is 9 percent. (In 1995-96, the interest rate was 8.98 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 on pages 10-11. 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, a borrower can contact the school's financial aid office and/or the Direct Loan Servicing Center (see the information on the inside cover of this publication).



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 monthly payments usually will be less than under the Standard Repayment Plan. This may make repayment more manageable; however, borrowers usually will pay more interest because the repayment period is longer.

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- ▶ The **Graduated Repayment Plan** allows payments to start out low and increase 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 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 the borrower's adjusted gross income (AGI) and the total amount of Direct Loans borrowed. The required monthly payment will not exceed 20 percent of the borrower's discretionary income.*

* Discretionary 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.



As the borrower's income rises or falls each year, monthly payments will be adjusted accordingly. Borrowers have up to 25 years to repay; after 25 years, any unpaid amount will be discharged, but borrowers must pay taxes on the amount discharged.

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

If, because of exceptional circumstances, a borrower cannot repay his or her loans using one of the repayment plans described above, 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 the financial aid office or the Direct Loan Servicing Center.





HOW TO REACH US

Applicant Services/Loan Servicing

(800) 848-0979

working hours are from 8 a.m. to
8:30 p.m. (EST) Monday-Friday

U.S. Department of Education
Borrower Services Department
Direct Loan Servicing Center
P.O. Box 4609
Utica, NY 13504-4609
TDD: **(800) 848-0983**

