



## FEDERAL STAFFORD LOANS

A Guide for  
Financing Your  
College Education

# WHAT DO I NEED TO KNOW ABOUT THE FEDERAL STAFFORD LOAN PROGRAM?

College is expensive — there's no doubt about it. Luckily, there are programs available to help families with the expenses. This guide will introduce you to one of those programs — the Federal Stafford Loan Program administered by the Illinois Student Assistance Commission (ISAC). If you're reading this guide, you've probably already discussed other financial aid options — such as grants, scholarships and work-study — with the financial aid office of the college you're planning to attend. If you haven't yet, be sure to exhaust all of these other options before you decide to borrow an educational loan.

ISAC offers Federal Stafford loans through the Federal Family Education Loan Program (FFELP). FFELP is a partnership between colleges, private lending institutions (who fund the loans), and ISAC and the federal government (who reimburse the lender if the borrower doesn't repay). Colleges can also choose to participate in the William D. Ford Federal Direct Loan Program, under which the federal government acts as the lender, so students interested in borrowing Stafford loans should check with the financial aid office of the college they plan to attend to find out which program the college participates in.

## Are there different types of Federal Stafford Loans?

There are two types of these loans. With both types, the student is the borrower and responsible for repaying the loan.

**Subsidized** — eligibility is based on financial need, and the interest is paid by the federal government during the time you are enrolled in college at least half time, during the six month grace period and during periods of deferment.

**Unsubsidized** — eligibility is not based on financial need, and you are responsible for paying the interest from the date the funds are disbursed. (See page 10 for details on interest payment.)

## Who can borrow?

You can borrow at both the undergraduate and graduate levels, as long as you meet these requirements:

- are a U.S. citizen or national, or an eligible noncitizen\*
- enrolled at least half time in an eligible degree- or certificate-granting program
- maintain satisfactory academic progress, as determined by your college
- comply with Selective Service registration requirements
- neither be in default on any student loan nor owe a refund on a grant.

*\*Check with the financial aid office at your college for the definition of eligible noncitizen.*

## How Do I Apply?

The first step in applying for a student loan is to complete a Free Application for Federal Student Aid (FAFSA). You can apply online through FAFSA on the Web at [fafsa.ed.gov](https://fafsa.ed.gov) or you can fill out a paper FAFSA. FAFSA on the Web is faster and is a paperless process.

### Then what happens?

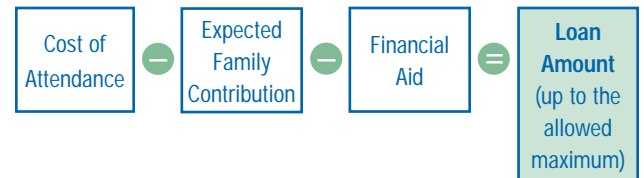
The financial aid administrator at your college will receive the FAFSA results and determine your eligibility, first for a subsidized loan and then for an unsubsidized loan.

- You will need to provide the college financial aid office with your lender name and code number and the loan amount you're requesting.
- The college will certify the loan amount and provide your loan data to ISAC.
- You'll also need to complete a Master Promissory Note (MPN) agreeing to repay the loan funds, plus interest, to the lender. By signing the MPN, you may not need to sign another promissory note when you borrow another loan(s). You may provide your signature on the promissory note through an electronic process, which either your lender or college will explain to you.

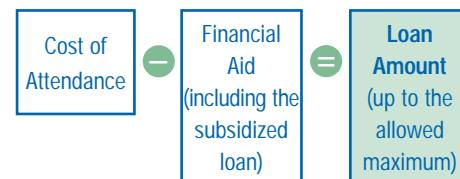
## How much can I borrow?

The amount you can borrow each year depends on your dependency status (as determined through the FAFSA), the length of your program of study, and the type(s) of loan you're borrowing. These charts will help explain:

### Subsidized Loan Eligibility



### Unsubsidized Loan Eligibility



The annual and aggregate loan maximums\* for a combination of subsidized and unsubsidized loans are:

Dependent Undergraduate Students	
Academic Level	Annual Total (Combined Subsidized & Unsubsidized)
Freshman	\$5,500 (up to \$3,500 may be subsidized)
Sophomore	6,500 (up to \$4,500 may be subsidized)
Junior	7,500 (up to \$5,500 may be subsidized)
Senior	7,500 (up to \$5,500 may be subsidized)
Subsequent Undergrad. Levels	7,500 (up to \$5,500 may be subsidized)

Independent Undergraduate Students	
Academic Level	Annual Total (Combined Subsidized & Unsubsidized)
Freshman	\$ 9,500 (up to \$3,500 may be subsidized)
Sophomore	10,500 (up to \$4,500 may be subsidized)
Junior	12,500 (up to \$5,500 may be subsidized)
Senior	12,500 (up to \$5,500 may be subsidized)
Subsequent Undergrad. Levels	12,500 (up to \$5,500 may be subsidized)

*For some undergraduate programs less than an academic year, the annual loan maximums will be lower.*

Graduate Students	
Annual Total (Combined Subsidized & Unsubsidized)	\$20,500 (up to \$8,500 may be subsidized)

\*Loan amounts are subject to periodic review by the U.S. Congress. Verify current amounts at [collegezone.com](http://collegezone.com).

Federal Stafford Loan Aggregate Maximum	
<b>Undergraduate</b>	
Student Status	Aggregate Maximum
Dependent	\$31,000
Independent	\$57,500 (up to \$23,000 may be subsidized)
<b>Graduate (includes undergraduate borrowing)</b>	
Student Status	Aggregate Maximum
Independent	\$138,500 (up to \$65,500 may be subsidized)

### What is the interest rate?

The interest rate for academic year 2009-010\* on **subsidized undergraduate** loans is fixed at 5.6%. The rate on **unsubsidized undergraduate and all graduate** loans is fixed at 6.8%.

Previous loans at a variable rate will remain variable, with the rate changing every year on July 1st. Refer to [collegezone.com](http://collegezone.com) for the current variable rate.

*\*The interest rate on subsidized undergraduate loans will decrease incrementally each year until July 1, 2012. The schedule of rate changes is available at [collegezone.com](http://collegezone.com).*

## Are there any fees?

There is currently a 0.5% federal origination fee subtracted from the loan proceeds before each disbursement (loans are usually disbursed in at least two equal installments). This fee is in effect until 7/1/10, when the fee will be eliminated. There is also a 1% default fee which, unless waived fully or partially by ISAC and/or the lender, will also be subtracted from the loan funds. Because of the fees, the total amount disbursed would be less than the amount borrowed.

For example:

\$3,500 amount borrowed	−	\$52.50 (1.5% total fees)	=	\$3,447.50 amount disbursed
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## How do I get my loan money?

Loan proceeds are sent directly to your college. If the lender and the college use electronic funds transfer (EFT), the funds will be sent electronically from the lender to the college, as authorized by your signature on the MPN.

If not disbursed via EFT, the funds will be sent to your college by individual check made payable to you, or by a master check issued for multiple students attending your college.

After your college verifies your continued eligibility, the loan proceeds will be delivered to you or applied to your account. If you're a first-year undergraduate and you've never borrowed before, your funds will be held until 30 days after classes start.

Also, if you're borrowing for the first time (regardless of your academic level), you'll need to attend an entrance counseling session before you can receive your loan funds. The session may be conducted in person, through the Internet, video or a combination of these methods.



## WHAT ARE MY RESPONSIBILITIES AFTER I RECEIVE MY LOAN?

It's your responsibility to use your loan proceeds only for your educational expenses for the period of time certified by the financial aid office. You will face prosecution if the funds are used for any other purpose.

It's also important that you stay in touch with the lender or loan holder throughout the life of your loan, and immediately report any changes in your status. This includes things like changing your name, address, college or enrollment status. You need to also promptly respond to any correspondence sent to you by your lender or holder, your college or ISAC.

### When do I start repaying my loan?

After you leave school or drop below half-time status, regardless of whether you graduate, you must contact the lender or holder of your loan to discuss repayment. You'll have a six month period of time, called a grace period, before payments actually begin on your loan.

### Is there a difference between repaying subsidized and unsubsidized loans?

After the six month grace period ends, repayment begins on:

- **Principal** and **interest** on subsidized loans
- **Principal** on unsubsidized loans

If you have an unsubsidized loan, you're responsible for payment of the **interest** beginning on the date the first disbursement is made. You can choose from two payment options:

- monthly or quarterly interest payments to the lender, which will prevent both your monthly payment and the total amount you'll pay from increasing; or
- the interest can be added to the principal balance of the loan when you begin repaying. (This is called capitalization and your monthly payment amount will be higher if you choose this option.)

### How long will I have to repay?

You can choose from several different repayment options:

- standard repayment with equal monthly payments of at least \$50 and a maximum ten-year repayment period
- graduated, income-sensitive or income-based repayment with periodic monthly payment amount changes
- extended repayment for up to 25 years if you owe more than \$30,000.

If you have both subsidized and unsubsidized loans, your payment due dates will coincide. The chart below will give you a general idea of your monthly payment amount (using a 6.8% interest rate and a ten-year repayment period) based on the total amount you borrow. To determine the amount of your payments for other loan balances or rates, visit the Calculators area of [collegezone.com](http://collegezone.com) and access the Monthly Payment Estimates Calculator. Other available calculators, such as the SLOPE (Student Loans Over Projected Earnings) Calculator and the Cost of Deferment/Forbearance Calculator, can help you make informed decisions about your loans.

Approximate Monthly Payment		
Amount Borrowed	Monthly Payment	Total Principal & Interest
\$ 5,000	\$ 58	\$ 6,905
15,000	173	20,714
25,000	288	34,524
40,000	460	55,238
65,000	748	89,762
90,000	1,036	124,286

## Will my loan be sold?

It's possible — selling loans to secondary markets or other lenders is common practice for lenders. If this happens, you'll be notified, and the organization that buys your loan will become the holder of the loan. All of the same terms and conditions will still apply to your loan and your obligations will transfer to the new holder. You'll just be making your payments to them instead of to your original lender.

## What if I can't make my payments?

If you have trouble making your payments, get in touch with your lender. There are deferment and forbearance options available to help you.

- Deferment is the temporary postponement of payments of the loan principal, and in some cases, interest. While your loan is deferred, the federal government will pay the interest on subsidized loans; you are still responsible for paying the interest on unsubsidized loans.
- Forbearance is an agreement with your lender to temporarily postpone or reduce principal payments. Payment of the interest is always your responsibility during forbearance.

Use the Cost of Deferment/Forbearance Calculator at [collegezone.com](https://collegezone.com) to estimate the interest that you'll owe during a deferment or forbearance period.



## WHAT HAPPENS IF I DON'T REPAY MY LOAN?

Your Federal Stafford loan is a serious financial and legal obligation. If you don't pay it back, the loan will default and there will be legal penalties. These are some of the consequences of defaulting on your loan.

- You will lose eligibility for all federal and state student aid programs, including any future student loans.
- You will lose any possible deferment or forbearance options.
- Your defaulted status will be reported to the Internal Revenue Service (IRS), causing your federal and state tax refunds to be withheld and applied to your loan balance.
- Additional fees and interest will be added as a result of collection efforts.
- Your wages will be garnished.
- Your defaulted status will be reported to a national credit bureau, and will stay on your record for seven years after your final payment. An adverse credit rating will impact your future ability to borrow money.
- You will lose certain professional licenses.
- Legal action will be taken against you.

### How can I prevent defaulting on my loan?

Here are some strategies that will help.

- Apply the “abc” — always borrow conservatively — policy throughout your college years. Don't borrow more than you actually need. Remember, what you borrow now, you'll eventually have to repay. This same logic can be applied to credit card use, too. Even though it's tempting to charge now and pay later, later will arrive sooner than you think, and you don't want to leave college with a big credit card debt.

- Make sure you're not borrowing more than you can reasonably expect to repay, based on projected earnings for your chosen career field. Use the SLOPE (Student Loans Over Projected Earnings) calculator at [collegezone.com](http://collegezone.com) to figure the percentage of your income that should be taken up by student loan payments.
- Although it can be a challenge, get in the habit of living on a budget while you're still in college. Once you're done with your studies, and begin adding to your monthly obligations things like rent or a mortgage payment, utilities, car payments and credit card bills, living within your means will already be routine.
- Think about combining all of your educational loans into one manageable loan through loan consolidation. You'll get a longer repayment term, which may give you a lower monthly payment. Keep in mind, though, that you'll probably end up paying more interest in the long run. Talk to your lender or holder about consolidation once you've finished your college studies, and use the Consolidation Payment Calculator at [collegezone.com](http://collegezone.com) to help determine if consolidation is the right choice for you.
- Keep track of all of your student loans with the U.S. Department of Education's National Student Loan Data System at [nslds.ed.gov](http://nslds.ed.gov). Because your student loans could have different lenders, guarantors and/or servicing locations, it is important to know where they are.

Information about FFELP Federal Stafford Loans and other programs administered by ISAC can be found at [collegezone.com](http://collegezone.com). For specific details about your loan(s), contact the financial aid administrator at your college or your lending institution.



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