**Applying for and Managing Loans**

**STEP 1: Applying for Loans**

Once students have selected the college they will attend, they need to:

**To Complete This Step**

**Students Need To**:

* Know what a loan is and that taking a loan commits them to paying it back
* Understand how different loan payment amounts can impact their post-college budget and plans
* Read and understand their loan agreement
* Understand the terms, conditions, amounts and requirements of the loan they are taking out

1. Accept their financial aid package
2. Decide which loans to accept and how much to take out
3. Complete loan entrance counseling and Master Promissory Note for each type of loan

When comparing packages, students should understand concretely what taking out loans will mean for them financially (and socially) after they graduate or leave school. For example, they need to be aware of the difference in impact of a $100 monthly payment versus a $400 monthly payment. Once students decide on a college, they need to decide on which loans to accept and how much to borrow. The subsidized loans with the lowest interest rates are the most desirable. Often students have no choice but to take all the loans they are offered in a given financial aid package, which is why careful comparison of financial aid offers is critical.

**Critical Decisions Made:**

* How much debt to manage after education
* Which loans to take out (federal vs. private, subsidized vs. unsubsidized)
* Commitment to paying back loans with interest under all the terms and conditions of the federal student loan program

The entrance counseling for federal student loans is an online quiz that students must complete in order to get a loan. This quiz is intended to ensure that students have an understanding of loans and borrowing before they legally commit themselves to taking out a loan. The quiz covers the whole process of taking out a loan, including the process of paying it back.

The Master Promissory Note (MPN) is attached to the loan entrance counseling. The MPN is a legal document in which the student promises to repay his/her loan and any accrued interest and fees. In most cases, one MPN can be used for loans that a student receives over several years of study. For example, students can take subsidized and unsubsidized Stafford loans under the same MPN over a period of 10 years. For students already in college, if a student previously signed an MPN to receive a FFEL Program loan, he/she will need to sign a new MPN for a Direct Loan. Failure to follow the terms and conditions of the MPN could result in delinquency or default which can seriously affect a student’s future.

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**STEP 2: Manage loans while in school**

**To Complete This Step**

**Students Need To**:

* Fill out necessary paperwork to receive loans throughout their college career
* Keep all documents related to their loans
* Know what to do if they leave college or drop below half time (see Step 3).

While in school, students will need to:

1. Decide whether to pay or capitalize interest (if loan is unsubsidized)
2. Keep all loan paperwork
3. Take out new loans each year (if needed)
4. Know what steps to take if they leave school or drop below half-time

Each year students will have to take out more loans (if needed). As they accept more loans each year, students should be mindful of the total loan amount they will be responsible for paying back after college.

Students with unsubsidized loans must decide whether or not they want to pay interest on their loan while in school or have the interest **capitalized** into the loan principle. Capitalizing interest can make a loan a bit more expensive over the long term. If students decide to pay the interest, they can do so when they receive their interest statements. Students can choose to pay any and all interest on their loan month to month as they get their interest statements.

**Critical Decisions Made:**

* Which loans to take each year
* How much to borrow

Students need to know how to manage their loans as their lives change. They need to be aware that if they leave college (for any reason) or drop enrollment below half time, they will be responsible for attending loan exit counseling and paying their loans back following the **grace period**. They also need to be aware of who to notify when they leave college or drop below half-time (their college, their lender, etc.)**.**

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**To Complete This Step**

**Students Need To**:

* Know which repayment plans are available to them.
* Pick a repayment option to start with
* Understand when they have to begin repaying, and the amount they will have to repay
* Know the options that exist of they are having difficulty repaying their loans
* Know the options that exist to get their loans forgiven/cancelled
* Know how to manage their payments to avoid delinquency and default
* Keep all documents related to their loans

**STEP 3: Repaying Loans**

Once students graduate, leave school or drop below half time, they must start repaying their loans. Students should:

1. Participate in loan exit counseling
2. Choose a payment plan (which they can change anytime)
3. Create a budget reflecting their current economic situation
4. Make regular payments
5. Explore forgiveness options, if applicable

If something goes wrong and a student is unable to make a payment, he/she should:

1. Contact his/her lender immediately to discuss options

Colleges and the federal government **require** that students complete loan exit counseling. Failure to complete the loan exit counseling could prevent students from graduating, receiving a diploma, obtaining transcripts to attend another school, and receiving any student account refunds owed from the school. The exit counseling interview provides students with information on how to manage student loan repayment, rights & responsibilities as a borrower in the federal student loan program, and other important loan servicing and default consequence information.

**Critical Decisions Made:**

* Which repayment option works best for them
* How to integrate their student loans into their post-college finances

Depending on the specific loans the student or parents took, they will have different repayment options. The general types of repayment options are listed below:

* **Standard repayment -** Payment of a fixed amount each month which depends on your loan balance and period of repayment, not to exceed 10 years.
* **Graduated repayment** - begins with lower payment amounts that increase over time.
* **Extended repayment** - allows repayment over a longer period of time, up to 30 years. Your payment amounts will be either fixed or graduated.
* **Income-Contingent Repayment –** Monthly payment is based on your adjusted gross income, family size and your loan balance.

Students need to continue to manage their loans after they leave their post-secondary education program(s). In particular, they need to keep up on regular payments and know their options if a situation arises in which they can no longer make their payments.

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If students find themselves in difficulty there may be several different options for them:

* **Switch payment plans - Students may switch to a payment plan with lower monthly payments.**
* **Consolidation - Enables students to pay existing student loans in full with one loan, with one interest rate and repayment schedule. Could help lower overall payments (although it could increase the overall cost of the loan in the long term).**
* **Deferment – The temporary postponement of loan payments; during this time the borrower does not have to pay either principle or interest.**
* **Forbearance –Temporary postponement or reduction of payments because of the borrower’s financial difficulties. Forbearance may also be an extension of the repayment period. Borrowers must pay interest during this period.**

Students should also keep in mind that there are several ways to have their loans **cancelled** or **forgiven**, meaning they are **released from their obligations to repay a portion or all of an educational loan**. These differ by type of loan. The Perkins loan has by far the most ways to get part or the entire loan cancelled. Some of the main ways to do this are:

* **Public service employment** – varies by loan. Perkins forgiveness clauses include teacher serving students from low-income families, special education teacher, professional provider of early intervention services, teach of math, science and foreign languages, and more.
* **Service in the Armed Forces**
* **School closing** before student could complete program
* **Borrower’s death or permanent disability**
* **Bankruptcy** (in RARE cases)