



FEDERAL STUDENT LOANS

Be a Responsible Borrower:
Plan Ahead and Graduate
With Less Debt



Federal Student Aid
An OFFICE of the U.S. DEPARTMENT of EDUCATION

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When you take out a federal student loan, you may not be required to make payments on that loan while you are in school, but you are required to repay the loan—including fees and interest—when you graduate or stop attending school at least half-time. Federal student loans are an excellent resource to help pay your education expenses and a great way to establish a solid financial future. It's important that you borrow responsibly so you'll be able to repay your loan.

Borrowing responsibly includes borrowing only what you need to pay your education expenses and what you can realistically afford to repay when you leave school. This publication covers

- creating your in-school budget;
- understanding the type of loan and the terms and conditions of the loan you're receiving;
- estimating how much you need to borrow each school year; and
- tracking your borrowing.

U.S. Department of Education
Arne Duncan
Secretary

Federal Student Aid
James W. Runcie
Chief Operating Officer

Customer Experience Office
Brenda F. Wensil
Chief Customer Experience Officer

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Online Access
This publication is also available at
StudentAid.gov/resources.

Alternate Formats
On request, this publication is available in alternate formats, such as Braille. For more information, please contact Federal Student Aid using the information provided in the previous section.

Some of the Web addresses in this publication are for sites created and maintained by organizations other than the U.S. Department of Education. They are provided for the reader's convenience. The U.S. Department of Education does not control or guarantee the accuracy, relevance, timeliness, or completeness of this outside information. Further, the inclusion of particular Web addresses is not intended to reflect their importance, nor is it intended to endorse any views expressed or products or services offered on these outside sites, or the organizations sponsoring the sites.

All Web addresses included in this publication were accurate at press time.
Find detailed federal student aid information at
StudentAid.gov.

CREATE YOUR IN-SCHOOL BUDGET

Establish a budget each school year **before** you take out a loan. This will help you monitor your spending and determine whether or not your financial resources will cover your education costs. You may find that you don't need to take out a loan each school year or that you don't need to borrow all the money your school has offered you.



Use the steps below to get started on your budget.

1. Make two lists. Your first list should include all your sources of income, and the second list should include all your college costs.

Sources of income may include employment, grants, scholarships, work-study income, college savings plans, contributions from relatives or friends, and more. College costs may include tuition, books, fees, supplies, equipment, housing, food, and more.

A list of the items typically included in college costs is available at [StudentAid.gov/collegecost](https://studentaid.gov/collegecost).

Note: Ask your school for help with determining your college costs. At the Net Price Calculator Center, available at collegecost.ed.gov/netpricecenter.aspx, you will find a tool for determining any college's net price—that is, the price after subtracting the scholarships and grants you are likely to receive.

2. Calculate your total income and your total expenses.

3. Compare your total income with your total expenses. If your total income and available savings are less than your total college costs, review your list of expenses, and check for ways to reduce your spending and to eliminate unnecessary expenses. For suggestions on reducing your college costs, visit [StudentAid.gov/collegecost](https://studentaid.gov/collegecost).

4. Now, compare your total income against your expenses again. If your total income and resources are still less than what you need to pay for your college costs, consider taking out a federal student loan.

Remember: Monitor your income and expenses, and review your budget often to make updates as your income and expenses change. If you need help with these tasks or information to help you manage your finances, use Federal Student Aid's interactive loan counseling tool, Financial Awareness Counseling (FACT), available at [StudentLoans.gov](https://studentloans.gov).

Do you need help figuring out your in-school budget?

The [StudentAid.gov/budget](https://studentaid.gov/budget) page provides detailed information on creating a budget. The College Navigator provides help in researching and comparing colleges based on your individual needs, and is available at www.nces.ed.gov/collegenavigator. Also, use the College Scorecard tool for information about net price, graduation rates, loan default rates, median borrowing, and more. This tool is available at collegecost.ed.gov/scorecard.

UNDERSTAND THE TYPE OF LOAN AND THE TERMS AND CONDITIONS OF THE LOAN YOU ARE RECEIVING

You must repay any loan you receive. That's why, before you receive any loan funds, it's important you understand

- the type of loan you are receiving,
- who is making the loan, and
- the terms and conditions of the loan.

Types of Student Loans

Student loans can come from the federal government or from private sources, such as a bank or financial institution. Loans made by the federal government are called “federal student loans.” They offer borrowers many benefits not typically found in private loans. Benefits include but are not limited to

- low fixed interest rates,
- income-driven repayment plans (for certain federal student loans),
- cancellation of loans for certain types of employment, and
- deferment (postponement) options, including deferment of loan payments if a student returns to school.



The U.S. Department of Education (ED) has two federal student loan programs:

1. **The William D. Ford Federal Direct Loan (Direct Loan) Program** is ED's main student loan program. Under this program, ED is your lender. There are four types of Direct Loans:
 - a. Direct Subsidized Loans
 - b. Direct Unsubsidized Loans
 - c. Direct PLUS Loans (made to graduate or professional students and parents of dependent undergraduate students)
 - d. Direct Consolidation Loans
2. **The Federal Perkins Loan Program** is a school-based loan program for undergraduate and graduate students with exceptional financial need. Under this program, the school is the lender. **Note:** Some schools do not offer this program.

For detailed information about the loans listed above, visit [StudentAid.gov/types/loans](https://studentaid.gov/types/loans). You also can check out the differences between federal student loans and private loans at [StudentAid.gov/federal-vs-private](https://studentaid.gov/federal-vs-private).



Note: If you don't understand what types of loans are in your aid offer, contact your school. Asking questions will help you be an informed borrower.

The Terms and Conditions of Your Loan

If you aren't sure what the terms and conditions of your loan are, read the following documents:

- **Your Master Promissory Note (MPN)**—Before you can receive a federal student loan, you will be required to sign an MPN. The MPN is a legal document in which you promise to repay your loan and any accrued interest and fees to your lender. It explains the terms and conditions of your loan, for example, the loan repayment requirements, and the types of deferment and cancellation provisions available to you. The MPN also explains your rights and responsibilities as a borrower.

Note: Your signature on the MPN allows your school to make multiple loans to you under a single promissory note. However, your school must have a process—and inform you of its process—for confirming whether or not you want to accept the loans it is offering you. The confirmation process helps you to monitor how much you are borrowing.

- **Your Loan Disclosure Statement**—For each Direct Loan that you receive under an MPN, you'll receive a disclosure statement that gives you specific information about that loan, including the loan amount, loan fees, and the expected disbursement dates and amounts. For any Perkins Loan you receive, the MPN will identify the amount of the loan and any additional terms of the loan.

REMINDER: Keep copies of all correspondence from your school or lender, especially promissory notes, forms, and statements you sign. You'll need to refer to this information later when you begin repaying your loan or at other times when you need information about the terms of your loan, such as deferment or forbearance. **Note:** Interest may be charged on your loan during periods of deferment and forbearance. For more information, see [StudentAid.gov/repay](https://studentaid.gov/repay).

Learn more about completing the MPN for Direct Loans at [StudentAid.gov/mpn](https://studentaid.gov/mpn). For Perkins Loans, contact your school for information about completing an MPN.



ESTIMATE HOW MUCH YOU NEED TO BORROW EACH SCHOOL YEAR

The amount of student loan funds you receive while you are in college is likely to impact your future finances. Starting salaries vary greatly depending upon your career path. Take time, **before** you receive loan funds, to figure out how the loan you are receiving will affect you and your future finances. You can help yourself a great deal by completing the following tasks to determine how much you need to borrow for your education expenses:

- Determine your potential future income.
- Review your in-school budget.
- Estimate your anticipated monthly payments for your loans.

Determine Your Potential Future Income

Create a list that includes your total net income (your monthly salary minus taxes) and any other sources of income you expect to have. Check with your school for starting salaries of recent graduates in your field of study to get an idea of how much you are likely to earn after you graduate.

You may find the following websites helpful as you gather this information:

- The U.S. Department of Labor's career search tool at **[StudentAid.gov/careersearch](https://www.studentaid.gov/careersearch)**—Research careers, view the average annual salary for each career, and research employment opportunities advertised in the area where you plan to live.
- The U.S. Department of Labor's *Occupational Outlook Handbook* **www.bls.gov/ooh/**—Estimate salaries for different careers or research employment opportunities advertised in the area where you plan to live.

Review Your In-school Budget

First, determine if and how much money you will need to borrow to cover your education expenses for the school year (see “Create Your In-school Budget” in this booklet). Next, consider the following to determine how much you can realistically repay:

- The total amount of loan funds you need to borrow to help pay your education expenses for the school year.
- Your expected graduation date and your future borrowing needs to fund your education through this date.
- Your potential future income.

Estimate Your Monthly Payments For Your Loans

Once you have a good idea of your potential income after you graduate from college, your estimated in-school budget, and the amount you need to borrow to meet your education expenses, you'll want to determine your estimated monthly loan payment amount and the amount you'll pay in total for your loan. You'll need to repeat this process each time you receive a student loan to ensure that you are calculating your payments based on your accumulated total loan debt. See the “Track Your Borrowing” section on page 10 of this booklet.

Note: It's a good idea to limit your student loan debt to an amount that keeps your payments to a small percentage (8 percent) of your annual salary after you graduate. To get an idea of what your student loan payment will be under available repayment plans, use the Repayment Estimator at **[StudentAid.gov/repayment-estimator](https://www.studentaid.gov/repayment-estimator)**.

TRACK YOUR BORROWING

It's important to keep track of each loan you receive so that you are aware of how much you'll need to pay each month and in total for your loans as you progress through college. Don't wait until you graduate or stop attending school to review your student loan debt. If you do wait, you may find you have borrowed more than you can afford to repay or multiple types of loans that require separate monthly payments.



Create a tracking sheet like the one shown below as a reminder of all the loans you've received. You can view your financial aid history, using "My Federal Student Aid" at [StudentAid.gov/log-in](https://studentaid.gov/log-in). Keep in mind that account does not include any private student loans you may receive.

SAMPLE LOAN TRACKING CHART					
	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5
Type of Student Loan	Direct Subsidized Loan	Private Student Loan			
Federal Student Loan or Private Loan?	Federal	Private			
Loan Servicer* or Lender (name and contact information)	ABC Servicer	My Credit Union			
Amount Borrowed	\$2,500	\$2,000			
Interest Rate	3.86%	5.8%			
Estimated Month and Year Repayment Begins	September 2019				

***Loan Servicer:** The U.S. Department of Education (ED) uses several loan servicers to handle the billing and other services for your federal student loans. Find more information about loan servicers at [StudentAid.gov/servicer](https://studentaid.gov/servicer).



TIPS FOR MANAGING YOUR FEDERAL STUDENT LOANS

- Whenever possible, pay interest on your federal student loans while you're in school, and during grace, deferment, and forbearance periods. By paying interest as it accumulates, you will reduce the overall amount you repay instead of allowing the interest to be capitalized (added to the principal balance).
- You must notify your servicer if you experience any of the following at any time after you receive a federal student loan:
 - Change your address or telephone number;
 - Change your name (for example, maiden name to married name);
 - Do not enroll at least half-time for the loan period certified by the school;
 - Do not enroll at the school that determined you were eligible to receive the loan;
 - Stop attending school or drop below half-time enrollment;
 - Transfer from one school to another school; or
 - Graduate.
- If you're a graduate or a professional degree student, take out Direct Unsubsidized Loans first; then take out Direct PLUS Loans, if needed. Direct Unsubsidized Loans offer lower interest rates and lower fees than Direct PLUS Loans.

RESOURCES

Federal Student Aid's Website **StudentAid.gov**

Get detailed information about federal student aid. You'll find federal student loan interest rates and fees, details about the aid application process, loan repayment, and much more. You will also find current borrowing limits and interest rates on this site.

Money issues and financial basics

- Get help with financial issues from the Federal Trade Commission at www.ftc.gov/bcp/edu/microsites/moneymatters/index.html.
- Get help with financial basics at www.mymoney.gov.

Loan-related Videos

Check out the following loan-related videos on **YouTube.com** **/FederalStudentAid**:

- **Responsible Borrowing**
- **Repayment: What to Expect**
- **How to Manage Your Loans**

Stay connected:



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Note: The information in this document was compiled in spring 2014. For updates or additional information, visit StudentAid.gov or call 1-800-4-FED-AID.

Notice to Limited English Proficient Persons

If you have difficulty understanding English, you may request language assistance services for Department information that is available to the public.

These language assistance services are available free of charge. If you need more information about interpretation or translation services, please call 1-800-USA-LEARN (1-800-872-5327) (TTY: 1-800-437-0833), or e-mail us at: ed.language.assistance@ed.gov. Or write to:

U.S. Department of Education
Information Resource Center
LBJ Education Building
400 Maryland Ave., S.W.
Washington, DC 20202

To view federal student aid publications and resources in Spanish, go to StudentAid.gov/es/resources.