Direct Loan Basics & Entrance Counseling Guide

For Graduate and Professional Student Direct PLUS Loan Borrowers

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DIRECT LOAN BASICS & ENTRANCE COUNSELING GUIDE

For Graduate and Professional Student Direct PLUS Loan Borrowers

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This guide provides a general overview of information that you will need to successfully repay the Direct Loans that you are receiving to help pay for your college costs. For more detailed information about a specific topic, see the Master Promissory Note for your loan or your copy of the ***Borrower's Rights and Responsibilities Statement****. Much of the information in this booklet is a part of entrance counseling, which graduate or professional student borrowers must complete before receiving a Direct Subsidized, Unsubsidized, or student PLUS Loan. Throughout this guide the words "we," "us," "our" and "the Department" refer to the U.S. Department of Education. Also, all references to "loan" in the singular apply to more than one loan as well.*

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What kinds of loans are available to graduate and professional students through the Direct Loan Program?

The Direct Loan Program offers several low-interest loans to graduate and professional students who are attending schools participating in the program. The lender is the U.S. Department of Education (the Department) rather than a bank or other financial institution.

Direct Subsidized Loans

Direct Subsidized Loans for graduate and professional student borrowers are made for up to $8,500 per school year and have a fixed interest rate. The actual amount that you will receive may be less, depending on your financial need and other factors. (Financial need is your cost of attendance minus your estimated financial assistance and your Expected Family Contribution or EFC.)

Direct Unsubsidized Loans

Direct Unsubsidized Loans can be used to meet your remaining education costs and to replace your EFC. The interest rate on unsubsidized loans is also a fixed rate. Graduate or professional students may borrow up to $20,500 per school year, less any Direct Subsidized Loan amount you receive. (Study in certain health professions programs may qualify you for higher limits.)

Direct PLUS Loans

Direct PLUS Loans can be made to graduate or professional students who need to borrow more than the maximum subsidized and unsubsidized loan amounts to meet education costs that are not covered by other financial aid. The interest rate for PLUS loans is also a fixed rate. (Parents of dependent undergraduate students are also eligible for PLUS loans on behalf of their children.)

Direct Loan Interest Rates

Direct Loan Type	Interest Rate (fixed)	When Interest Accrues
Direct Subsidized Loan (graduate & professional students)	6.8%	No interest accrues while you are in school at least half-time,* during grace and deferment periods.
Direct Unsubsidized Loan	6.8%	Interest begins to accrue with the first disbursement of your loan. You are responsible for paying interest during all periods.
Direct PLUS Loan (graduate & professional students)	7.9%	

*Check with your school for their definition of half-time enrollment.

What are the eligibility requirements?

You must meet the general eligibility requirements for Federal Student Aid programs, including citizenship or status as an eligible permanent resident. You can find out more about these requirements in our publication, *Funding Education Beyond High School: The Guide to Federal Student Aid*, or by visiting Student Aid on the Web (**www.studentaid.ed.gov**).

To receive a Direct Loan (Subsidized, Unsubsidized, or student PLUS) you must be enrolled at least half-time at a school that participates in the Direct Loan Program. Graduate or professional student PLUS Loan borrowers, must be enrolled in a graduate or professional degree program and must not have an adverse credit history (a credit check will be conducted).

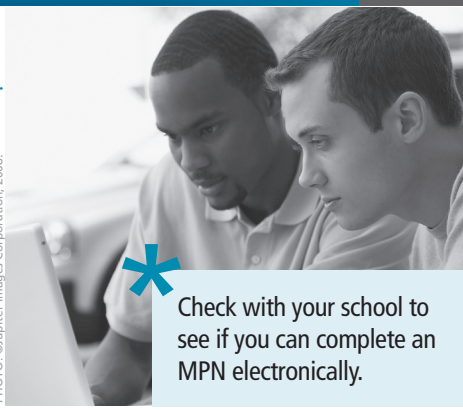
Note: If the credit check shows that you have an adverse credit history, you still may be able to have your loan approved if you can get the loan endorsed by someone who does not have an adverse credit history. By endorsing your loan, the endorser is agreeing to repay the loan if you do not repay it.

How do I apply for aid?

You apply for Direct Loans and other Federal Student Aid by completing the *Free Application for Federal Student Aid* (FAFSA). The information from your application will be shared with the schools that you have identified on the FAFSA. After your FAFSA has been processed, the school will notify you, usually through an award letter, of the types of aid for which you are eligible. Note that some schools have additional application procedures—check with your school's financial aid office to be sure.

Can I request a lower loan amount than the amount I've been offered?

Yes, you can request less than the amount that the school has offered to you, or decline the loan. The school's aid offer is based on typical expenses for its student population. If you budget carefully, you may be able to reduce your costs during your period of attendance and thus reduce your need for loan assistance.



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The Master Promissory Note

To apply for any Direct Loan, you must complete a Master Promissory Note (MPN). The MPN is a legally binding agreement to repay your loan to the Department. In most cases, one MPN can be used for loans that you receive over several years of study. If you received Direct Subsidized or Unsubsidized Loans as an undergraduate student, you may still have a valid MPN on file that you may use to take out further subsidized or unsubsidized loans as a graduate or professional student, if you are attending a school that participates in the Direct Loan Program.

* Check with your school to see if you can complete an MPN electronically.

If you are getting a Direct PLUS Loan for the first time as a graduate or professional student, you'll need to complete and sign a PLUS MPN that is separate from the one that you use for your Direct Subsidized and Unsubsidized Loans. When you complete a PLUS MPN, you are authorizing the Department to perform a credit check.

Is there a fee for my Direct Loan?

Yes, it is called the origination fee. You pay a fee that is a percentage of each Direct Loan that you receive. The amount will be shown on the disclosure statement that you will receive. Disclosure statements tell you the type of loan (Subsidized, Unsubsidized and PLUS), the amount of the loan, the amount of each disbursement, the fees, and other information about the loan. We deduct the fee before you receive any loan money, so the loan amount you actually receive will be less than the amount you have to repay.

* The origination fee for a Direct PLUS Loan is 4%; however, we offer a 1.5% interest rate rebate that helps reduce this fee. Once you begin repayment, you must make 12 on-time monthly payments to retain this benefit.

How will I receive my loan money?

The school will generally disburse loan money by crediting your school account. It also may give some of it to you directly. Your loan money usually will be disbursed in at least 2 installments. You may use the loan money you receive only to pay for your education expenses at the school that is giving you the loan. Education expenses include such school charges as tuition, room and board, and fees, and such indirect expenses as books, supplies, equipment, dependent child care expenses, transportation and rental or purchase of a personal computer.

The entire unpaid amount of your loan may become due and payable (on your MPN this is called "acceleration") if it turns out that you are not eligible for the loan. For instance, you'll have to pay back the loan immediately if:

- You don't enroll at least half-time at the school that gave you the loan.
- You gave false information that made you eligible for the loan.

When do I have to begin making payments on my loan?

Direct PLUS Loans—Repayment begins 60 days after you've received the last installment of the loan for a school year. However, as long as your school reports to us that you are still enrolled at least half-time, we will grant a deferment that allows you to postpone payments while you're continuing your education.* There is no grace period for PLUS loans, so you will be expected to begin repayment as soon as your deferment ends.

Direct Subsidized and Unsubsidized Loans—Repayment begins after a 6-month grace period. The grace period begins the day after you cease at least half-time enrollment.

*

Paying interest on your loan while you are in school

If you choose not to pay the interest on your Direct Unsubsidized or PLUS Loan while you're in school, we will add it to the unpaid principal amount of your loan when you enter repayment. This is called "capitalization." Capitalization increases the unpaid principal balance of your loan, and we will then charge interest on the increased principal amount. Check your interest statements, and use the online calculators at **www.dl.ed.gov** to find out how much you'll pay over the life of the loan if the in-school interest is added to your loan balance. If you want to pay the interest that accrues on your Direct Unsubsidized Loan or your PLUS Loan while you're in school, contact the Direct Loan Servicing Center at 1-800-848-0979.

How much time will I have to repay my loan, and how much will I have to pay each month?

Generally, you'll have from 10 to 25 years to repay your loan, depending on the repayment plan that you choose. Your monthly payment amount will be based on the amount you borrowed and the repayment plan you select.

* Your account is placed in an in-school deferment status.

Direct Loan student borrowers may choose one of several repayment plans:

- ***Standard Repayment Plan***—You make fixed monthly payments for up to 10 years.
- ***Graduated Repayment Plan***—Your payments start off lower at first and then gradually increase, usually every 2 years. The loan must be repaid within 10 years.
- ***Extended Fixed or Extended Graduated Repayment Plan***—You make fixed or graduated monthly payments over a period of time not to exceed 25 years. Extended repayment plans are available only to new Direct Loan borrowers on or after Oct. 7, 1998, who currently have an outstanding Direct Loan balance of more than $30,000.
- ***Income Contingent Repayment Plan***—Your monthly payment is adjusted each year based on your annual income (and your spouse's income, if you're married), your family size, and the total amount of your Direct Loans. After 25 years, any unpaid loan amount will be forgiven. This plan is currently available only to Direct Subsidized or Unsubsidized Loan borrowers. Beginning July 1, 2009, this plan also will be available to student Direct PLUS Loan borrowers.

Note that beginning July 1, 2009, a new ***Income-based Repayment Plan*** will become available to student Direct Loan borrowers (parent Direct PLUS Loan borrowers may not repay their Direct PLUS Loan under this plan). Your payment under this plan will be based on your income during any period when you have a partial financial hardship. Your monthly payment amount may be adjusted annually. The maximum repayment period under this plan may exceed 10 years. If you meet certain requirements over a specified period of time, you may qualify for cancellation of any outstanding balance on your loans.

You can change plans at any time. There's no penalty if you make payments before they are due or pay more than the amount due each month.

You can use the charts on page 10 of this guide to estimate the monthly and total amounts you would repay under these plans. You can find more information about these plans by contacting the Department's Direct Loan Servicing Center Online at: **www.dl.ed.gov**.

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Can I get help repaying my loan?

Public Service Employment—If you are employed in certain public service jobs and have made 120 payments on your Direct Loans (after Oct. 1, 2007), the remaining balance that you owe may be forgiven. Only payments made under certain repayment plans may be counted toward the required 120 payments. You must not be in default on the loans that are forgiven.

Armed Forces—As part of their recruitment programs, the Armed Forces may repay your education loan if you enlist in the military. For more information, contact your local military service recruitment office.

Can my loan ever be canceled or discharged?

You must repay your loan even if you don't complete or can't find a job related to your program of study, or if you are unhappy with the education you paid for with your loan. However, we will cancel your loan if you have your loan discharged in bankruptcy, if you die, or if you become totally and permanently disabled and meet certain additional requirements. We may discharge some or all of your loan if:

- The school closed before you completed your program.
- The school forged your signature on your promissory note or falsely certified that you were eligible to get the loan.
- A loan in your name was falsely certified through identity theft.
- You withdrew from school but the school didn't return the portion of your aid award that it was required to return under our regulations. (See the written notice on return of aid that your school provides to its students.)

Keep your loan account updated!

One of the most common reasons a loan goes into default is because we don't have current information on a borrower. You ***must*** notify the Direct Loan Servicing Center and your school's financial aid office about certain changes. This is your responsibility.

Until you graduate or leave school, you must notify your school's financial aid office and the Direct Loan Servicing Center if you:

- Change your local address, permanent 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 certified your loan;
- Stop attending school or drop below half-time enrollment;
- Transfer from one school to another school; or
- Graduate.

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Keep in contact!

You must also notify the Direct Loan Servicing Center if any of these types of changes listed above happen *after you leave school*. In addition, you must notify the Servicing Center if you have any other change that would affect your loan, for example, if your eligibility for a deferment has ended.

Because we report information about your loan to national credit bureaus, making timely payments on your loan will help you keep a good credit rating. If you think you might have a problem making the scheduled payments on your loan, contact the Direct Loan Servicing Center immediately at 1-800-848-0979. The Servicing Center can help you avoid the costs and penalties of delinquency and default.

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Delinquency and default

If you fail to make a payment, we'll send you a reminder that your payment is late. If your account remains delinquent, we'll send you warning notices reminding you of your obligation to repay your loan and the consequences of default. Late fees may be added if your payments are late, and your delinquency will be reported to one or more national credit bureaus.

Default occurs when you become 270 days delinquent in making payments on your loan. If you default:

- The entire unpaid amount of your loan becomes due and payable.
- We will report your default to national credit bureaus.
- We may sue you, or take all or part of your federal tax refund or other federal payments, or garnish your wages so that your employer is required to send us part of your salary to pay off your loan, or use a combination of these actions.
- You'll have to pay collection fees and costs, plus court costs and attorney fees.
- You'll lose eligibility for other federal student aid and most other federal benefit programs.
- You'll no longer be eligible for loan deferments (such as deferments while you're in school, unemployed, or experiencing economic hardship).

Staying out of default

Make sure you take advantage of deferments and forbearances when you need them. A deferment is a temporary suspension of your monthly loan payment. There are many different types of deferments available. For more information about deferments, contact the Direct Loan Servicing Center.

You may qualify for a deferment if:

- You return to school at least half-time at a school that's eligible to participate in the Department's Federal Student Aid programs.
- You are unemployed or meet our rules for economic hardship.
- You are serving on active duty during a war or other military operation or national emergency, or you are performing qualifying National Guard duty during a war or other military operation or national emergency, and if you are serving on or after Oct. 1, 2007, for the 180-day period following the demobilization date for your qualifying service.
- You are a member of the National Guard or other reserve component of the U.S. Armed Forces (current or retired) and are called or ordered to active duty while enrolled at an eligible school, or within 6 months after having been enrolled. For this deferment, the deferment period is after the completion of the active duty service.

If you don't qualify for a deferment but are temporarily unable to make loan payments for such reasons as illness or financial hardship, we may grant you a forbearance. A forbearance also allows you to defer loan payments in certain situations, such as during an illness. We charge interest on Direct Unsubsidized and PLUS Loans during all periods of deferment and forbearance. Interest on Direct Subsidized Loans is charged only during periods of forbearance.

Estimated Direct Loan Repayment Amounts by Type of Repayment Plan and Debt Amounts

Direct PLUS Loans[a]						
Initial Debt When You Enter Repayment	Standard		Graduated		Extended[c]	
	Per Month	Total	Per Month[b]	Total	Per Month	Total
$5,000	$60	$7,248	$42	$7,694	Not Available	
10,000	121	14,496	84	15,388	Not Available	
25,000	302	36,240	211	38,472	Not Available	
50,000	604	72,480	422	76,942	383	114,781
100,000	1,208	144,960	844	153,882	765	229,561

[a] The **estimated** payments were calculated using the maximum interest rate for Direct PLUS Loan borrowers, 7.9%.

[b] This is your beginning payment, which may increase.

[c] You may choose the Extended Repayment Plan only if (1) you had no outstanding balance on a Direct Loan Program loan as of Oct. 7, 1998, or on the date you obtained a Direct Loan Program loan after Oct. 7, 1998, and (2) you have an outstanding balance on Direct Loan Program loans that exceeds $30,000. Under the Extended Repayment Plan, you may choose to make fixed or graduated monthly payments. This example shows fixed monthly payments.

Direct Subsidized and Unsubsidized Loans[a]												
Initial Debt When You Entered Repayment	Standard		Extended Fixed[c]		Extended Graduated[c]		Graduated		Income Contingent[b] Income = $25,000			
									Single		Married/HOH[d]	
	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
$5,000	$58	$6,904	N/A	N/A	N/A	N/A	$40	$7,275	$37	$8,347	$36	$11,088
10,000	115	13,809	N/A	N/A	N/A	N/A	79	14,550	75	16,699	71	22,158
25,000	288	34,524	N/A	N/A	N/A	N/A	198	36,375	186	41,748	178	55,440
50,000	575	69,048	347	104,109	284	112,678	396	72,749	247	93,322	189	122,083
100,000	1,151	138,096	694	208,217	568	225,344	792	145,498	247	187,553	189	170,153

[a] Payments are calculated using a fixed interest rate of 6.8% for Direct Subsidized and Unsubsidized Loans disbursed on or after July 1, 2006.

[b] Assumes a 5% annual income growth (Census Bureau).

[c] This repayment plan is available only to borrowers who have an outstanding balance on Direct Loan Program loans that exceeds $30,000, and who had no outstanding balance on a Direct Loan Program loan as of Oct. 7, 1998 or on the date they obtained a Direct Loan Program loan on or after Oct. 7, 1998.

[d] HOH is Head of Household. Assumes a family size of two.

Loan consolidation

You may want to combine multiple federal education loans into a single Direct Consolidation Loan, which may allow you to extend the repayment period. The interest rate for a Direct Consolidation Loan is based on a weighted average of the loans being consolidated. (Note that while extending the repayment period may lower your monthly payments, you may pay more interest over the life of the Direct Consolidation Loan.) Use the following chart to estimate the monthly and total amounts you will repay if you choose to consolidate your federal education loans.

Consolidation Borrowers[a]												
Initial Debt When You Entered Repayment	Standard		Extended Fixed[c]		Extended Graduated[c]		Graduated		Income Contingent[b] Income = $25,000			
									Single		Married/H0H[d]	
	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
$5,000	$61	$7,359	N/A	N/A	N/A	N/A	$38	$7,978	$40	$9,414	$38	$12,294
10,000	97	17,461	N/A	N/A	N/A	N/A	69	19,165	80	18,828	77	24,587
25,000	213	51,123	N/A	N/A	N/A	N/A	172	55,491	201	47,069	189	61,588
50,000	394	118,264	394	118,264	344	126,834	344	126,834	247	106,630	189	137,766
100,000	751	270,452	788	236,528	688	253,660	688	286,305	247	187,553	189	170,153

[a] Payments are calculated using the maximum interest rate for consolidation loans, 8.25%.

[b] Assumes a 5% annual income growth (Census Bureau).

[c] This repayment plan is available only to borrowers who have an outstanding balance on Direct Loan Program loans that exceeds $30,000, and who had no outstanding balance on a Direct Loan Program loan as of Oct. 7, 1998 or on the date they obtained a Direct Loan Program loan on or after Oct. 7, 1998.

[d] HOH is Head of Household. Assumes a family size of two.

NOTES

Rights and Responsibilities Summary Checklist—Entrance Counseling for Student PLUS Borrowers

I understand that I have a right to the following (check all boxes as you read):

- ❑ Written information on my loan obligations and information on my rights and responsibilities as a borrower
- ❑ A disclosure statement, received before I begin to repay my loan, that includes information about interest rates, fees, the balance I owe, and the number of payments
- ❑ Deferment of repayment or forbearance for certain defined periods, if I qualify and if I request deferment or forbearance
- ❑ Prepayment of my loan in whole or in part anytime without an early-repayment penalty
- ❑ A copy of my MPN either before or at the time my loan is disbursed
- ❑ Documentation that my loan is paid in full

I understand I am responsible for (check all boxes as you read):

- ❑ Completing exit counseling before I leave school or drop below half-time enrollment.
- ❑ Repaying my loan even if I do not complete my academic program, I am dissatisfied with the education I received, or I am unable to find employment after I graduate.
- ❑ Notifying my school and the Direct Loan Servicing Center if I:
  - Move or change my address;
  - Change my name;
  - Withdraw from school or drop below half-time enrollment;
  - Transfer to another school;
  - Fail to enroll or reenroll in school for the period for which the loan was intended;
  - Change my expected graduation date; or
  - Graduate.
- ❑ Making monthly payments on my loan, unless I have a deferment or a forbearance.
- ❑ Notifying the Direct Loan Servicing Center of anything that might alter my eligibility for an existing deferment or forbearance.

I have received entrance counseling materials for Direct Subsidized, Unsubsidized, and student PLUS Loan borrowers. I have read and I understand my rights and responsibilities as a borrower. I understand that I have a loan from the federal government that must be repaid.

Student's Name (Please Print)	Student's Social Security Number
Student's Signature	Date

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RESOURCES FOR MORE INFORMATION

General information about student aid and applying for student aid:

Federal Student Aid Information Center
1-800-4-FED-AID
1-800-433-3243
(TTY 1-800-730-8913)

Student Aid on the Web:
www.studentaid.ed.gov

Visit the Web site or call for general information about student aid. From the Web site, you can access a variety of student aid publications in English and Spanish, including **Funding Education Beyond High School: The Guide to Federal Student Aid**, *a comprehensive overview of the financial aid process.*

For information about everything related to Direct Loan Repayment:

Borrower Services at the Direct Loan Servicing Center
1-800-848-0979
(TTY 1-800-848-0983)

Direct Loan Servicing Online:
www.dl.ed.gov

For information about Direct Loans:

Direct Loans on the Web:
www.direct.ed.gov

Track your outstanding federal student loans:

National Student Loan Data System (NSLDS) Web site:
www.NSLDS.ed.gov

Note: NSLDS only tracks federal student loans; you will need to track any private education loans you may have using your own records.

For everything you need to know about Direct Consolidation Loans, including an online application:

Direct Loan Consolidation Center
1-800-557-7392
(TTY 1-800-557-7395)

Direct Loan Consolidation Web site:
www.loanconsolidation.ed.gov

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