

You are borrowing Direct Subsidized Loans and/or Direct Unsubsidized Loans to help you finance your education. Repaying these loans is a serious responsibility. This guide explains some of the most important information that you will need to successfully understand, manage, and repay your loans.

Throughout this guide, the words "we," "us," and "our" refer to the U.S. Department of Education. The word "loan" refers to one or more Direct Subsidized Loans or Direct Unsubsidized Loans that you are borrowing.

The William D. Ford Federal Direct Loan Program

The William D. Ford Federal Direct Loan (Direct Loan) Program includes the following types of loans:

- Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)
- Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)
- Federal Direct PLUS Loans (Direct PLUS Loans)
- Federal Direct Consolidation Loans (Direct Consolidation Loans)

Loans made under the Direct Loan Program are known collectively as "Direct Loans." Direct Loans are made by the U.S. Department of Education.

Who to Contact About Your Direct Loans

Our Direct Loan Servicing Center services, answers questions about, and processes payments on Direct Loans. You may contact the Direct Loan Servicing Center by:

- Calling 800-848-0979 or, if you use a telecommunications device for the deaf (TDD), by calling 800-848-0983;
- Visiting the Direct Loan Servicing Center's web site at www.dl.ed.gov; or
- Writing to:
U.S. Department of Education
Direct Loan Servicing Center
P.O. Box 4609
Utica, NY 13504-4609.

Where You Can Find Your Direct Loan Records

Direct Loans are reported to the National Student Loan Data System (NSLDS). NSLDS is our central database for student aid records. It provides a centralized view of your loans, tracking your loans from when they are approved through when they are paid off. You may access your account on the NSLDS web site at www.nsls.ed.gov by using a Personal Identification Number (PIN) that we assign to you along with other identifying data. If you do not have Internet access, you may call 800-4-FED-AID (800-433-3243).

Master Promissory Note for Direct Subsidized Loans and Direct Unsubsidized Loans

Direct Subsidized Loans and Direct Unsubsidized Loans are made to students to help pay for the cost of education beyond high school. In most cases, the loans you received were made under a Master Promissory Note (MPN). The MPN is a legally binding agreement between you and us and contains the terms and conditions of your loans.

Under an MPN, you may receive more than one loan over a period of up to 10 years to pay for your educational costs, as long as the school you are attending is authorized to make multiple loans under the MPN and chooses to do so.

If the school you are attending is not authorized or chooses not to make multiple loans under the MPN, or if you do not want to receive more than one loan under the MPN, you must sign a new MPN for each loan that you receive. If you do not want to receive more than one loan under the MPN, you must notify the school you are attending or the Direct Loan Servicing Center in writing.

Use of your loan money

You may use the loan money you receive only to pay for your authorized educational expenses for attendance at the school that determined you were eligible to receive the loan. Authorized expenses include the following:

- Tuition,
- Room,
- Board,
- Institutional fees,
- Books,
- Supplies,
- Equipment,
- Dependent child care expenses,
- Transportation,
- Commuting expenses,
- Rental or purchase of a personal, computer,
- Loan fees, and
- Other documented, authorized costs.

Information you must report to us after you receive your loan

You must notify the Direct Loan Servicing Center and/or the financial aid office at your school about certain changes.

Until you graduate or otherwise leave school, you must notify your school's financial aid office 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 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.

Money Management

Many students start college with little or no personal experience with loans, credit cards, living expenses, and budgeting. Understanding and practicing effective money management will help you to determine how much money you actually need to borrow. The following tips will help you manage your money and keep your debt under control.

(1) Know your rights and responsibilities.

Failing to take advantage of your rights (for example, applying for a deferment or forbearance) and to carry out your responsibilities (keeping the Direct Loan Servicing Center informed of your address, phone number, and other information) is a sure way to end up delinquent or in default. Keep a complete set of all your records, and talk to the Direct Loan Servicing Center when you have questions or concerns.

(2) Take advantage of tax relief.

The Taxpayer Relief Act of 1997 created tax credits (the HOPE Scholarship Credit and the Lifetime Learning Credit) for individuals paying tuition and related expenses. Contact the IRS for more information.

(3) Understand and limit credit card use.

Credit cards are one form of borrowing money. If you decide you need a credit card, stick with one card with a low limit. Multiple cards mean higher debt. Pay off your total balance each month. If that is not possible, always pay more than the minimum. Many credit card offers entice you with a low interest rate for the first few months and raise the rate after this initial period. If you make a payment late (even a day late!), they may increase your interest rate.

(4) Pay interest on Direct Unsubsidized Loans.

If you borrow a Direct Unsubsidized Loan, you are responsible for paying all of the interest that accumulates on the loan. You do not have to pay the interest while you are in school. But if you start to pay the interest while you are in school, it may save you a significant amount of money over the life of your loan because the interest that you pay while you are in school will not be capitalized. Start by making your interest payments a budget priority. Remember that paying a little more each month can save you many dollars later.

A common theme run through these money management tips: Develop a budget. Developing a budget after you leave school is

a very important tool. The three main steps in creating your budget are: (1) calculating your total resources; (2) calculating your total expenses; and (3) determining the balance.

The Interactive Budget Worksheet and Calculator at www.ed.gov/DirectLoan will help you determine your total expenses and estimate your total available income. The budget calculator lists most of the critical items to help you consider all of your resources. Based on the figures entered, an estimated budget figure will be calculated for the year.

Amount you may borrow

The charts on this page show the maximum amounts of Direct Subsidized Loans and Direct Unsubsidized Loans that you may borrow for a single academic year (annual loan limits), and the maximum amounts that you may borrow in total for undergraduate and graduate study (aggregate loan limits). These amounts vary depending on your academic level and dependency status. If you are enrolled in certain health professions programs, you may qualify for higher annual and aggregate limits on Direct Unsubsidized Loans.

If your school awards both Direct Subsidized Loans and Direct Unsubsidized Loans, it is required to determine your eligibility for a Direct Subsidized Loan before determining your eligibility for a Direct Unsubsidized Loan. The actual loan amount that you receive will be determined by your school, based on your academic level, dependency status, and other factors such as:

- The length of the program or the remaining portion of the program in which you are enrolled, if it is less than a full academic year;
- Your cost of attendance;
- Your Expected Family Contribution;
- Other financial aid you receive; and
- Your remaining eligibility under the annual or aggregate loan limits.

The actual amount you receive may be less than the maximum annual amounts shown in the charts.

Annual Loan Limits for Direct Subsidized Loans and Direct Unsubsidized Loans:

Dependent Undergraduates	
First Year (freshman)	\$2,625
Second Year (sophomore)	\$3,500
Third Year (junior) and Beyond	\$5,500

Independent Undergraduates	
First Year (freshman)	\$6,625 (maximum \$2,625 subsidized)
Second Year (sophomore)	\$7,500 (maximum \$3,500 subsidized)
Third Year (junior) and Beyond	\$10,500 (maximum \$5,500 subsidized)
Graduate and Professional Students	
	\$18,500 (maximum \$8,500 subsidized)

Aggregate Loan Limits for Direct Subsidized and Direct Unsubsidized Loans:

Dependent Undergraduates	
	\$23,000
Independent Undergraduates	
	\$46,000 (maximum \$23,000 subsidized)
Graduate and Professional Students	
	\$138,500 (includes loans received for undergraduate study; maximum \$65,500 subsidized)

Interest Rate

The interest rate on Direct Subsidized Loans and Direct Unsubsidized Loans is a variable rate that is based on a formula established by law. The interest rate may be adjusted each year on July 1. As a result, your interest rate may change annually, but it will never exceed 8.25 percent. We will notify you annually of the actual interest rate for each loan that you receive.

Payment of Interest

We do not charge interest on a Direct Subsidized Loan while you are enrolled in school at least half-time, during your grace period, and during deferment periods. We charge interest on a Direct Subsidized Loan during all other periods (starting on the day after your grace period ends), including forbearance periods.

We charge interest on a Direct Unsubsidized Loan during all periods (starting on the day your loan is paid out). This includes periods while you are enrolled in school at least half-time, during your grace period, and during deferment and forbearance periods.

If you do not pay the interest on a Direct Subsidized Loan during forbearance periods, we will add it to the unpaid principal amount of your loan. This is called "capitalization."

If you do not pay the interest on a Direct Unsubsidized Loan while you are enrolled in

school at least half-time, during your grace period, and during deferment and forbearance periods, we will capitalize your interest.

Capitalization increases the unpaid principal balance of your loan, and we will then charge interest on the increased principal amount.

The chart below shows the difference in the total amount you would repay on a \$15,000 Direct Unsubsidized Loan if you pay the interest as it is charged during a 12-month deferment or forbearance period, compared to the amount you would repay if you do not pay the interest and it is capitalized.

	If you pay the interest as it is charged...	If you do not pay the interest and it is capitalized...
Loan Amount	\$15,000	\$15,000
Capitalized Interest for 12 months (at the maximum rate of 8.25%)	\$0	\$1,238
Principal to be Repaid	\$15,000	\$16,238
Monthly Payment (Standard Repayment Plan)	\$184	\$199
Number of Payments	120	120
Total Amount Repaid	\$23,315	\$23,900

In this example, you would pay \$15 less per month and \$585 less altogether if you pay the interest as it is charged during a 12-month deferment or forbearance period.

You may be able to claim a federal income tax deduction for interest payments you make on Direct Loans. For further information, refer to IRS Publication 970, which is available at www.irs.ustreas.gov.

Loan fee

We charge a loan fee of up to 4 percent of the principal amount of each loan you receive. This fee will be subtracted proportionally from each disbursement of your loan. The loan fee will be shown on a disclosure statement that we send to you.

Disbursement (how your loan money will be paid out)

Generally, your school will disburse (pay out) your loan money in more than one

installment, usually at the beginning of each academic term (for example, at the beginning of each semester or quarter). If your school does not use academic terms, it will generally disburse your loan in at least two installments, one at the beginning of the period of study for which you are receiving the loan, and one at the midpoint of that period of study.

In most cases, if the Direct Subsidized Loan or Direct Unsubsidized Loan that you are receiving is your first student loan under either the Direct Loan Program or the Federal Family Education Loan (FFEL) Program, you must complete entrance counseling before your school can make the first disbursement of your loan.

Your school may disburse your loan money by crediting it to your account at the school, or may give some or all of it to you directly by check or other means. The Direct Loan Servicing Center will notify you in writing each time your school disburses part of your loan money.

If your school credits your loan money to your account and the amount credited is more than the amount of your tuition and fees, room and board, and other authorized charges, the excess amount is called a credit balance. Unless you authorize your school to hold the credit balance for you, your school must pay you the credit balance within the following timeframes:

- If the credit balance occurs after the first day of class of a payment period (your school can tell you this date), your school must pay you the credit balance no later than 14 days after the date the balance occurs.
- If the credit balance occurs on or before the first day of class of a payment period, your school must pay you the credit balance no later than 14 days after the first day of class of the payment period.

Canceling your loan

Before your loan money is disbursed, you may cancel all or part of your loan at any time by notifying your school. After your loan money is disbursed, there are two ways to cancel all or part of your loan:

- Within 14 days after the date your school notifies you that it has credited loan money to your account at the school, or by the first day of your school's payment period, whichever is later (your school can tell you the first day of the payment period), you may tell your school that you want to cancel all or part of the loan money that was credited to your account. Your school will return the cancelled loan amount to us. You do not have to pay interest or the loan fee on the part of your loan that you tell your school to cancel within this

timeframe. If you received an up-front interest rebate on your loan, the rebate does not apply to the part of your loan that you tell your school to cancel. Your loan will be adjusted to eliminate any interest, loan fee, and rebate amount that applies to the amount of the loan that was cancelled.

If you ask your school to cancel all or part of your loan outside the timeframes described above, your school may process your cancellation request, but it is not required to do so.

- Within 120 days of the date your school disbursed your loan money (by crediting the loan money to your account at the school, by paying it directly to you, or both), you may return all or part of your loan to us. Contact the Direct Loan Servicing Center for guidance on how and where to return your loan money. You do not have to pay interest or the loan fee on the part of your loan that you return within 120 days of the date that part of your loan is disbursed. If you received an up-front interest rebate on your loan, the rebate does not apply to the part of your loan that you return. Your loan will be adjusted to eliminate any interest, loan fee, and rebate amount that applies to the amount of the loan that you return.

Demand for immediate repayment

The entire unpaid amount of your loan becomes due and payable (on your MPN this is called "acceleration") if you:

- Receive loan money but do not enroll at least half-time at the school that determined you were eligible to receive the loan;
- Use your loan money to pay for anything other than educational expenses at the school that determined you were eligible to receive the loan;
- Make a false statement that causes you to receive a loan that you are not eligible to receive; or
- Default on your loan.

Avoiding Delinquency and Default

If you think you might have a problem making the scheduled payments on your loans, contact the Direct Loan Servicing Center immediately. The Direct Loan Servicing Center can help you avoid the costs and negative consequences associated with delinquency and default.

You are delinquent if your monthly payment is not received by the due date. If you fail to make a payment, the Direct Loan Servicing Center will send you a reminder that your payment is late. If your account remains delinquent, the Direct Loan Servicing Center will send you warning notices reminding you of your obligation to repay your loans 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 loans. 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, take all or part of your federal tax refund or other federal payments, and/or garnish your wages so that your employer is required to send us part of your salary to pay off your loan.
- We will require you to pay reasonable collection fees and costs, plus court costs and attorney fees.
- You will lose eligibility for other federal student aid and assistance under most federal benefit programs.
- You will lose eligibility for loan deferments.

Grace Period

You will receive a six-month grace period on repayment of each Direct Subsidized Loan and Direct Unsubsidized Loan that you receive. Your six-month grace period begins the day after you stop attending school or drop below half-time enrollment. You do not have to begin making payments on your loan until after your grace period ends.

If you are called or ordered to active military duty for more than 30 days from a reserve component of the U.S. Armed Forces, the period of your active duty service, including the time necessary for you to enroll in school after your active duty ends, is not counted as part of your grace period. However, the period that is excluded from your grace period may not exceed three years. If the call or order to active duty occurs while you are in school and requires you to drop below half-time enrollment, the start of your grace period will be delayed until after the end of the excluded period. If the call or order to active duty occurs during your grace period, you will receive a full six-month grace period.

Repaying Your Loan

You must repay the full amount of your loans even if you: (1) do not complete your intended program of study; (2) are unable to obtain employment in your area of study; or (3) are dissatisfied with the education or services you received from your school.

The repayment period for each Direct Subsidized Loan and Direct Unsubsidized Loan that you receive begins on the day after your grace period ends. The Direct Loan Servicing Center will notify you of the date your first payment is due. If you do not choose a repayment plan, you will be placed on the Standard Repayment Plan, but you

may change repayment plans at any time after you have begun repaying your loan. There is no penalty if you make loan payments before they are due.

You may choose one of the following repayment plans to repay your loan:

- **Standard Repayment Plan** – Under this plan, you will make fixed monthly payments and repay your loan in full within 10 years (not including periods of deferment or forbearance) from the date the loan entered repayment. Your payments must be at least \$50 a month and will be more, if necessary, to repay the loan within the required time period. We may need to adjust the number or amount of your payments to reflect changes in your loan's variable interest rate.
- **Extended Repayment Plan** – Under this plan, you will make fixed monthly payments and repay your loan in full within 12 to 30 years (not including periods of deferment or forbearance), depending on the total amount of your Direct Loans. Your payments must be at least \$50 a month and will be more, if necessary, to repay the loan within the required time period. We may need to adjust the number or amount of your payments to reflect changes in your loan's variable interest rate.
- **Graduated Repayment Plan** – Under this plan, your payments will be lower at first and will increase, usually every two years. You will repay your loan in full within 12 to 30 years (not including periods of deferment or forbearance), depending on the total amount of your Direct Loans. Your payments must cover the interest that accumulates on your loan between payments and can never be less than 50 percent or more than 150 percent of the amount that you would pay under the Standard Repayment Plan. (For example, if you would be required to pay \$100 each month under the Standard Repayment Plan, your monthly payment under the Graduated Repayment Plan could never be less than \$50 or more than \$150.) We may need to adjust the number or amount of your payments to reflect changes in your loan's variable interest rate.
- **Income Contingent Repayment Plan** – Under this plan, your monthly payment amount will be based on your annual income (and that of your spouse if you are married), your family size, and the total amount of your Direct Loans. Until we obtain the information needed to calculate your monthly payment amount, your payment will equal the amount of interest that has accrued on your loan unless you request a forbearance. As your income changes, your payments may change. If you do not repay your

loan after 25 years under this plan, the unpaid portion will be forgiven. You may have to pay income tax on any amount forgiven.

The chart at the end of this guide ("*Entrance Counseling Guide For Direct Loan Borrowers: Repaying Your Loans*") allows you to estimate the monthly and total amounts you would repay under each of the four repayment plans for various initial loan amounts.

Entrance Counseling Guide for Direct Loan Borrowers: Repaying Your Loans¹

Initial Debt When You Enter Repayment	Standard		Extended		Graduated		Income Contingent ^{3,4} Income = \$15,000				Income Contingent ^{3,4} Income = \$25,000				Income Contingent ^{3,4} Income = \$45,000			
	Per Month	Total	Per Month	Total	Per ² Month	Total	Single		Married/HOH ⁵		Single		Married/HOH ⁵		Single		Married/HOH ⁵	
							Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total	Per Month	Total
1,000	50	1,080	50	1,080	25	1,175	7	2,222	6	2,133	9	1,892	8	2,008	11	1,570	11	1,573
2,500	50	3,074	50	3,074	25	4,029	17	5,556	16	5,333	22	4,729	20	5,020	27	3,924	27	3,932
2,625	50	3,268	50	3,268	25	4,276	17	5,834	17	5,599	23	4,965	21	5,271	29	4,120	29	4,128
3,500	50	4,790	50	4,790	25	6,036	23	7,778	22	7,466	30	6,620	28	7,027	38	5,494	38	5,505
5,000	61	7,360	55	7,893	35	8,649	33	11,112	32	10,665	43	9,458	41	10,039	55	7,848	55	7,864
5,500	67	8,095	60	8,682	39	9,513	37	12,223	35	11,732	48	10,403	45	11,043	60	8,633	60	8,650
6,500	80	9,567	71	10,261	46	11,241	43	14,446	42	13,865	56	12,295	53	13,051	71	10,203	71	10,223
7,500	92	11,039	82	11,840	53	12,970	50	16,668	48	15,998	65	14,186	61	15,057	82	11,773	82	11,796
10,000	123	14,719	97	17,464	69	19,175	66	22,224	51	21,083	86	18,915	81	20,078	110	15,697	110	15,728
10,500	129	15,455	102	18,337	72	20,135	70	23,335	51	22,034	91	19,861	85	21,082	115	16,482	115	16,514
15,000	184	22,078	146	26,196	103	28,762	100	33,336	51	29,877	130	28,373	122	30,117	164	23,545	164	23,591
18,500	227	27,230	179	32,308	127	35,474	102	40,634	51	35,095	160	34,993	150	37,145	203	29,039	203	29,096
20,000	245	29,438	170	40,904	138	44,427	102	43,509	51	37,111	173	37,831	162	40,157	219	31,394	219	31,455
23,000	282	33,854	196	47,040	158	51,086	102	48,808	51	40,772	199	43,505	187	46,180	252	36,103	252	36,173
25,000	307	36,797	213	51,130	172	55,530	102	52,040	51	42,971	216	47,288	203	50,196	274	39,242	274	39,319
30,000	368	44,157	256	61,356	206	66,636	102	59,171	51	47,594	259	56,746	218	61,851	329	47,091	329	47,183
35,000	429	51,516	298	71,583	241	77,742	102	65,036	51	51,152	269	68,241	218	78,564	384	54,939	384	55,046
40,000	491	58,876	315	94,632	275	101,526	102	69,755	51	53,688	269	83,965	218	101,057	438	62,788	438	62,910
45,000	552	66,235	355	106,461	309	114,221	102	73,415	51	55,318	269	104,195	218	116,451	493	70,636	493	70,774
46,000	564	67,707	363	108,827	316	116,760	102	73,999	51	55,508	269	108,806	218	118,140	504	72,206	504	72,347
50,000	613	73,595	394	118,290	344	126,911	102	76,063	51	56,057	269	129,985	218	124,478	548	78,485	548	78,638
60,000	736	88,314	451	162,318	413	171,946	102	78,531	51	56,123	269	149,233	218	137,097	602	95,554	551	98,397
70,000	859	103,033	526	189,371	481	200,601	102	78,582	51	56,123	269	160,836	218	145,551	602	117,869	551	123,807
80,000	981	117,752	601	216,424	550	229,260	102	78,582	51	56,123	269	168,620	218	150,299	602	145,609	551	155,368
90,000	1,104	132,471	676	243,477	619	257,916	102	78,582	51	56,123	269	172,912	218	151,575	602	179,547	551	194,213
100,000	1,227	147,190	751	270,530	688	286,572	102	78,582	51	56,123	269	174,034	218	151,575	602	220,774	551	242,226
110,000	1,349	161,909	826	297,583	756	315,234	102	78,582	51	56,123	269	174,034	218	151,575	602	271,300	551	300,357
120,000	1,472	176,628	902	324,636	825	343,888	102	78,582	51	56,123	269	174,034	218	151,575	602	330,420	551	323,472
130,000	1,594	191,347	977	351,689	894	372,546	102	78,582	51	56,123	269	174,034	218	151,575	602	351,332	551	331,914
138,500	1,699	203,858	1,041	374,684	952	396,909	102	78,582	51	56,123	269	174,034	218	151,575	602	357,714	551	337,247

¹ The **estimated** payments were calculated using the maximum interest rate for students, 8.25%.

² This is your beginning payment, which may increase.

³ Assumes a 5% annual income growth (Census Bureau).

⁴ The **estimated** payments were calculated using the formula requirements in effect during 2002.

⁵ HOH is Head of Household; assumes a family size of two