

## Direct Loan Basics for Students and Parents

Direct Loans are low-interest loans for students and parents to help pay for the cost of a student's education after high school. The lender is the U.S. Department of Education (the Department) rather than a bank.

### WHAT KINDS OF DIRECT LOANS ARE AVAILABLE?

- **Direct Subsidized and Unsubsidized Loans** – Your eligibility for Direct Subsidized and Unsubsidized Loans is based on the information reported on the *Free Application for Federal Student Aid* (FAFSA<sup>SM</sup>). No interest is charged on subsidized loans while you are in school at least half-time, during your grace period, and during deferment periods. Interest is charged on unsubsidized loans during all periods.
- **Direct PLUS Loans** – Direct PLUS Loans are low-interest loans available to parents of dependent students and to graduate and professional degree students. Interest is charged during all periods.
- **Direct Consolidation Loans** – Direct Consolidation Loans are loans for borrowers who want to combine their eligible federal student loans into a single loan.

**WHAT IS THE INTEREST RATE?** Direct Loans have a fixed interest rate dependent on the loan type as indicated in chart.

Direct Subsidized Loans for undergraduates with a first disbursement date between July 1, 2011, and June 30, 2012	3.4%
Direct Subsidized Loans for graduate students and Direct Unsubsidized Loans for all students	6.8%
Direct PLUS Loans	7.9%

**WHAT ARE THE ELIGIBILITY REQUIREMENTS?** You must be enrolled at least half-time and you must meet general eligibility requirements for the Federal Student Aid programs.

**HOW DO I TAKE OUT A 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. Before receiving your first Direct Loan, you must sign an MPN that you'll complete online at [www.studentloans.gov](http://www.studentloans.gov).

### WHAT STEPS DO I NEED TO FOLLOW FOR PURDUE?

The Division of Financial Aid (DFA) will send the student an award notice, which defines the loan period, type of loan eligibility, and amount of eligibility. Stafford Loan and Graduate PLUS borrowers determine how much to borrow and complete the process in the myPurdue system at [www.mypurdue.purdue.edu](http://www.mypurdue.purdue.edu). Parent PLUS Loan borrowers complete an application at [www.studentloans.gov](http://www.studentloans.gov). Direct Loan funds are processed electronically by the Purdue Bursar. Processed loan funds are applied first to fees, then to housing (if the Bursar bills for housing). Any remaining Direct Loan funds are disbursed to the borrower.

**HOW MUCH CAN I BORROW?** Direct Loan eligibility is listed on the DFA award notice. The maximum amount you can borrow in the Stafford program each school year depends on your grade level and other factors. PLUS borrowers can receive an amount not to exceed the cost of attendance less other aid the student receives. Graduate and professional degree students who need to borrow more than the maximum Stafford loan amounts to meet education expenses not covered by other financial aid may be eligible to receive a Direct PLUS Loan.

**IS THERE A CHARGE FOR THIS LOAN?** Yes. In addition to interest, you pay a loan fee that is a percentage of the principal amount of the loan. The fee is deducted before you receive any loan money, so the loan amount you actually receive will be less than the amount you have to repay. For Stafford Loan the effective up-front fee will be 0.5% of the loan. For the PLUS Loan the effective up-front fee will be 2.5% of the loan. Note that if a borrower fails to make 12 consecutive on-time payments, they will be required to pay an additional fee to the Direct Loan servicer.

# Direct Loan

## Repayment Basics

**HOW DO I REPAY MY LOAN?** When you receive your first Direct Loan, you will be contacted by the servicer for that loan. Your servicer will be one of five companies designated by the U.S. Department of Education, and your servicer will collect payments, respond to your inquiries, and perform other administrative tasks associated with your loan.

**WHEN DO I HAVE TO BEGIN REPAYING MY LOAN?** Direct Subsidized and Unsubsidized Loans have a 6-month grace period that starts the day after you graduate, leave school, or drop below half-time enrollment. You don't have to begin making payments until your grace period ends. Repayment on a Direct PLUS Loan begins 60 days after the last installment of the loan for that school year is made; however, there is the option to defer repayment of a Direct PLUS Loan; more information at [www.studentaid.ed.gov](http://www.studentaid.ed.gov).

**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 how much you borrowed and how long you take to repay.

**WHAT TYPES OF PAYMENT PLANS ARE AVAILABLE?** You may choose one of several repayment plans listed here. You can change plans at any time. There's no penalty if you make payments before they are due to pay more than the amount due each month. For more information about these repayment plans, or to use our online calculator to calculate your estimated loan payment under different repayment plans, go to Student Aid on the Web at [www.studentaid.ed.gov](http://www.studentaid.ed.gov) or to your loan servicer's website.

- **Standard Repayment Plan** – Fixed monthly payments for up to 10 years.
- **Graduated Repayment Plan** – Payments that start off lower at first, and then gradually increase, usually every 2 years. The loan must be repaid in 10 years.
- **Extended Repayment Plan** – Fixed or graduated monthly payments over a period of time, not to exceed 25 years. To be eligible for this repayment plan, you must have more than \$30,000 in Direct Loan debt and you must not have had an outstanding balance on a Direct Loan on Oct. 7, 1998.
- **Income-Contingent Repayment (ICE) 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 not available to parent Direct PLUS Loan borrowers.
- **Income-Based Repayment (IBR) Plan** – Your monthly payment is capped at an amount that is affordable based on your income and family size. To find out if your federal student loan debt is high enough to qualify for this plan, use the repayment calculators on Student Aid on the Web at [www.studentaid.ed.gov](http://www.studentaid.ed.gov) or on your loan servicer's site. Your monthly payment amount may be adjusted annually. If you repay under IBR for 25 years and meet other requirements, any remaining balance will be forgiven. Direct PLUS Loans made to parents may not be repaid under IBR.

**CAN I EVER POSTPONE MAKING LOAN PAYMENTS?** Yes, under some conditions you may receive a deferment or forbearance that allows you to temporarily stop or lower your payments; more information at [www.studentaid.ed.gov/repaying](http://www.studentaid.ed.gov/repaying).

**CAN MY LOAN EVER BE CANCELLED, DISCHARGED, OR FORGIVEN?** You must repay your loan even if you don't complete or can't find a job related to your program of study, or are unhappy with the education you paid for with your loan. However, we will discharge (forgive) your loan if you have your loan cancelled in bankruptcy, if you become totally and permanently disabled, or if you die; more information at [www.studentaid.ed.gov/discharges](http://www.studentaid.ed.gov/discharges).

**HOW CAN I SAVE MONEY IN REPAYMENT?** You can save time and money with Automatic Payment Withdrawal. This repayment incentive program encourages you to repay your loans on time. With this payment option, your bank automatically deducts your monthly payment from your checking or savings account and sends the payment to your loan servicer. This ensures that your payment always will be made on time and your interest rate will be reduced by a quarter point (0.25%) during all periods when payments are made through this option. Your loan servicer will include information about this payment option in your first bill. Contact your loan servicer for more information.

### WHAT TYPE OF PAYMENTS WILL NEED TO BE MADE?

See charts here that assume a fixed interest rate and a 10-year repayment term. See repayment calculators at [www.studentloans.gov](http://www.studentloans.gov).

PLUS - 7.9%		STAFFORD - 6.8%	
AMOUNT BORROWED	PAYMENT	AMOUNT BORROWED	PAYMENT
\$5,000	\$60	\$5,000	\$58
\$10,000	\$121	\$10,000	\$115
\$20,000	\$242	\$20,000	\$230
\$30,000	\$362	\$30,000	\$345