paying for college

VSAC

my education loans

what you need to know as you borrow for college

- understanding financial aid awards
- comparing loans
- interest & repayment
- minimizing debt
- glossary of loan terms

Need help paying for college? You're not alone.

Most families who borrow for college use one or several types of education loans to help cover part of their college expenses. Loans are borrowed money that will need to be repaid with interest, so it's important to learn as much as you can about loans.

Know how much debt you can afford. As a family, have the money conversation up front while you're looking at colleges. When it comes time to borrow, use this guide to learn about comparing college costs and financial aid awards, and choosing education loans so that you can:

- **evaluate what's best for your family's situation**
- **borrow only what you need**
- **minimize your overall debt**

VSAC can help!

For more than 50 years, the Vermont Student Assistance Corporation has been assisting Vermont students and families on the pathway to college. As a public nonprofit, VSAC is dedicated to reducing the cost of financing education for Vermont residents and for all students attending Vermont colleges.

We've put together this guide so you'll be better informed and prepared to make the college financing choices that are best for your family's situation.

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My education loans

This booklet was produced by the Vermont Student Assistance Corporation, a public nonprofit corporation established by the Vermont Legislature in 1965 to help Vermont students plan and pay for education or training beyond high school.

Access these VSAC resources and many more planning tools at www.vsac.org

Financial aid applications & details online at www.vsac.org

- FAFSA
- CSS Profile®
- Vermont grant applications
- Unified Scholarship Application for all VSAC-assisted scholarships

Grants & scholarships

- state grants for full-time and part-time degree programs
- state grants for non-degree courses to improve employability or to try a college class
- information on more than 140 scholarships for Vermont residents

Education loans for students and parents

- for out-of-state students attending Vermont colleges
- for Vermont residents attending eligible colleges anywhere

VSAC loan rates save you money. And by choosing a loan from VSAC, you're supporting career and college outreach that creates education opportunities for all Vermonters and contributes to the future economic vitality of the state.

Vermont's 529 college savings plan at vheip.org

- a Vermont state income tax credit
- federal and state tax-free earnings and withdrawals

Free career exploration & college planning tools

- career and college planning resources for high school students and adults
- Paying for College presentations — at Vermont high schools throughout the fall
- College Pathways — events on Vermont college campuses for Vermont high school students and their parents
- Financial Aid Forms nights at select high schools

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Understanding financial aid awards

Congratulations on making the choice to go to college! This is a very valuable investment you can make for your future. Reports show that college graduates experience higher earnings over a lifetime, higher job satisfaction, and healthier lifestyles.

Still, college costs are daunting, and most families take on student and parent loans to finance higher education. VSAC is here to help you understand the financial aid process and ways to manage education debt successfully.

Haven't applied for financial aid yet? Visit *www.vsac.org/FAFSAfirst* to learn about the financial aid process.

Once you've applied for financial aid, you'll receive a financial aid award from each college at which you've been accepted. Financial aid awards vary widely. What you're offered in financial aid — not counting loans — reduces the amount you'll have to pay.

Visit **www.vsac.org/awardsamples** to view examples of financial aid awards, then use VSAC's online award letter comparison tool (**www.vsac.org/loans**) to crunch the numbers in your award notifications:

- *Add up* your total college costs (tuition and fees, room and board, plus any other estimated costs).
- *Subtract* grants, scholarships, and work-study.
- *Calculate* the remaining amount, which is what you'll pay for one year of college. (To estimate your full college cost, multiply this amount by the number of years needed for your degree.)

Most families don't have this amount readily available in savings, so they typically meet at least part of it through loans.

Before accepting loans to pay part of the college costs, compare all loans for which you're eligible so you can choose those with the terms that best meet your family's needs.

Comparing education loans

All loans are borrowed money that will need to be repaid with interest, so it's important to learn as much as you can about loans.

Loans to accept

The federal government offers loans directly to students, with flexible repayment options such as making monthly payments based on your income or deferring payments during periods of hardship. The financial aid office at each school will determine whether or not you're eligible for federal loans, based on the information reported on the FAFSA. If you're eligible, financial aid offices may include the following loans in your financial aid award notifications:

- Perkins loans
- Direct Subsidized loans
- Direct Unsubsidized loans

Most students will see either a Direct Subsidized or a Direct Unsubsidized loan in their awards. Some students will see both.

Direct Subsidized and Unsubsidized loan limits

	Dependent student	Independent student, or dependent student whose parent is denied a PLUS loan
first year (up to $3,500 may be in subsidized loans)	**$5,500**	**$9,500**
second year (up to $4,500 may be in subsidized loans)	**$6,500**	**$10,500**
remaining years (up to $5,500 may be in subsidized loans)	**$7,500**	**$12,500**
cumulative (undergraduate)	**$31,000**	**$57,500**

Loans to compare

VSAC's Vermont Advantage student and parent loans

As Vermont's nonprofit higher education agency, VSAC offers the fixed-rate Vermont Advantage Student Loan and the Vermont Advantage Parent Loan to finance education for students coming to Vermont for college, and for Vermont residents attending college almost anywhere. Both have lower interest rates than the federal Direct PLUS loan. Visit **www.vsac.org/VTadvantage** for details.

Federal Direct PLUS loans for parents

These federal loans have flexible repayment options, such as deferment during periods of hardship. Some schools will include a PLUS loan in a student's financial aid notification; others won't. It's the parent's choice whether or not to borrow some or all of the amount offered.

As a parent, you can choose to borrow the lower-cost Vermont Advantage loan. Visit **www.vsac.org/compare** for a comparison between VSAC's Vermont Advantage education loans and the federal PLUS.

If a parent is denied for a PLUS loan, his or her student may receive an additional amount of up to $5,000 in federal Direct Unsubsidized loans.

Loans from your college

Some colleges offer their own loan programs, which they'll list as part of your financial aid award. Be sure to compare these loans with the other loans you're considering.

What to consider

Interest rates

A fixed interest rate stays the same over the life of the loan. A variable interest rate changes with the financial markets (meaning that the rate can go up). Variable-rate loans often have lower initial rates, but may rise over time and cost significantly more over the life of the loan.

- For federal loans, the government sets the fixed interest rates for new loans each year. All borrowers pay the same rate according to their loan type.
- VSAC's Vermont Advantage loans feature fixed rates that will remain the same for the life of the loan. You choose the interest rate up front by selecting the repayment option you want.

Beware of loans offering a teaser interest rate that few borrowers qualify for. People often apply for a loan thinking that they'll receive a low advertised interest rate and find out only at the end of the application process that their rate is much higher.

Fees

An origination fee may be charged when you take out a loan. Look for low or no origination fees.

Repayment options

What are the rules for repaying the loan? Find out:

- when repayment begins
- the number of years it will take to pay off the loan
- the amount of the monthly payments
- whether you'll be eligible for periods of reduced payment or temporary suspended payment if you go back to school or experience economic hardship
- income-based repayment options or possibilities for loan forgiveness

Payment responsibility & cancellation

Who's responsible for repaying the loan? Some families want only the student to take out the loan; others may prefer that the parent take on the debt.

- The student is the borrower for federal Perkins, and federal Direct Subsidized and Unsubsidized loans.
- Both the student and a credit-worthy cosigner are the borrowers for VSAC's Vermont Advantage Student Loan and most student loans from banks.
- The parent is the only borrower for federal Direct PLUS loans for parents and for VSAC's Vermont Advantage Parent Loan.

Ask these questions

- If a cosigner is needed, can that cosigner be released? If so, under what conditions?
- Will the debt be cancelled if the borrower or student dies or becomes permanently disabled?

No cosigner is needed for the Vermont Advantage Parent Loan, but the Student Loan requires a cosigner, who may be released after meeting credit criteria; and VSAC offers death or disability provisions. Visit **www.vsac.org/VTadvantage** for details.

Learn more about federal loans at **https://studentaid.ed.gov/loans**.

Interest & repayment

Interest is what you pay to a lender in exchange for borrowing its money; in other words, it's the price you pay over time for using someone else's money up front.

Here's an example of the impact that interest will have on your loans:

	Amount borrowed	Interest while enrolled	Balance when you begin repayment
Year 1	$5,500	$963	$6,463
Year 2	$6,500	$860	$7,360
Year 3	$7,500	$670	$8,170
Year 4	$7,500	$349	$7,849
Total	$27,000	$2,842	$29,842

This example uses a fixed interest rate of 4.29%, with monthly payments made on time. If your interest rate is higher or you take longer to pay off your loan, the total you pay will also be higher.

Amount borrowed	Monthly payment	Length of repayment	Interest in repayment	Total paid
$29,842	$306	10 years	$6,910	$36,752

In this example, the total amount you pay covers:

- the original amount you borrowed — $27,000
- interest that accumulated while you're in school — $2,842
- interest that accumulates over ten years while you repay your loan — $6,910

Your school will provide instructions for your loan entrance counseling to help you understand what it means to take out a federal student loan.

You must complete this counseling before your school can provide loan funds.

The session will cover:

- **Direct loans**
- **managing education expenses**
- **other financial resources for your education**
- **your responsibilities and rights as a borrower**

How repayment works

You must repay education loans even if your financial circumstances become difficult. Loans can't be cancelled if you have financial hardship or don't complete your education. What you borrow still needs to be repaid.

Plan for repaying your loan so you won't be surprised later on. Go to **www.vsac.org/calculator** to estimate what your total monthly payments will be on all your loans.

Your Advantage Loan Coach

No one should have to face college loans on their own. We'll walk you through the process up front and support you along the way. With the Vermont Advantage, you'll receive a free, in-depth, personalized education debt counseling session from VSAC's repayment counseling service as you prepare to begin repayment.

When repayment starts

For federal Direct student loans

For federal Direct student loans, repayment starts after you leave college or drop below half-time enrollment. Your loan servicer will place you on a standard repayment plan (with a fixed monthly payment over 10 years) unless you actively choose a different repayment plan.

You may choose an income-driven repayment plan such as REPAYE (Revised Pay As You Earn) or other income-driven repayment plans that may lower your monthly federal student loan payments. However, whenever you make lower payments or extend your repayment period, you'll pay more in interest over time — often much more. In addition, under current Internal Revenue Service (IRS) rules, you may be required to pay income tax on any amount that is forgiven if you still have a balance at the end of your repayment period.

Another option for federal Direct student loans includes Public Service Loan Forgiveness (PSLF). If you're employed by a government or nonprofit organization, the federal government may forgive the remaining balance on your Direct loans after 120 monthly payments. Amounts forgiven under PSLF are not currently subject to income tax.

Visit **www.studentaid.gov/repay** for more about federal student loan repayment plans such as REPAYE and PSLF.

For federal Direct parent loans

For federal PLUS loans, repayment usually begins immediately. Your loan servicer will place you on a standard repayment plan (with a fixed monthly payment over 10 years). You may have options to extend or defer payment. Visit **www.studentaid.gov/PLUS** for details.

For VSAC's student and parent loans

With VSAC's Vermont Advantage Student and Parent loans, you choose the repayment plan when you apply, and your interest rate is determined by the repayment plan you select.

Once repayment begins, regular monthly payments are expected, although short postponement periods may be available during financial hardship. Visit **www.vsac.org/VTadvantage** for details, and don't forget that our Advantage Loan Coach will be available to help.

You'll pay less over the life of your loan if you pay as you go rather than deferring or extending payments. To reduce the total cost, you can also opt to pay more than the amount due. An additional $20–30 a month will cut the term of your loan significantly and reduce the interest you pay.

Longer repayment means higher repayment

While it may be tempting to defer payment or lower your payments initially, doing so means that you'll pay substantially more and pay over a longer period of time.

Let's say you borrow $27,000 for four years of college. You could choose to defer, make the standard payment, or pay a little extra each month. Here's what that would look like:

	Defer 2 years, then standard repayment	Standard repayment	Pay extra $27/month
Monthly payment	$333 for 10 years after 2-year deferment	$306	$333
Total paid	$39,905 over 12 years	$36,752 10 years	$36,025 9 years

Stay in touch

To whom are you making your payments? It's your responsibility to keep in touch with them; you're responsible for making timely payments even if you don't receive statements. This is really important!

Minimizing education debt

For one year of college you may have one or two types of federal loans, a loan from the college, and a loan from VSAC — and that's just for one year.

Don't wait until you graduate before adding up your loans. If you do, you may find that you've borrowed more than you can afford to repay. As you go, know what you owe.

Borrow only what you need

It's tempting — and easy in the short term — to borrow whatever type of loan you're offered or the maximum you're eligible to borrow each year, but don't think of loans as free money; you'll need to repay every dollar you borrow, with interest!

Ideally, student loan payments should consume no more than 15 percent of a new graduate's starting income. Use the loan payment calculator at **www.vsac.org/calculator** to estimate monthly payments.

To reduce the amount you need to borrow, consider:

- cutting expenses. How much can you economize while you're in school?
- taking advantage of tuition payment plans. By spreading payments out over the course of the academic year, you may be able to minimize what you need to borrow.
- applying for scholarships. For resources and application details, visit **www.vsac.org/scholarships**.

Pay interest while in school

For most loans, interest accumulates while you're in school, even though you're not usually required to make payments while you're enrolled. If you delay paying the interest, your interest will "capitalize," meaning that the unpaid interest will be added to your loan balance, and future repayment calculations will be based on this larger balance.

Simply put, when your interest capitalizes, you begin paying interest on your interest. You can avoid capitalization by making interest payments while you're in school.

Find more tips at **www.vsacroadmaps.org/pay**.

Glossary of education loan terms

Borrower
The student or parent who signs a promissory note and agrees to repay a loan. Borrowers are legally responsible for repayment of their loan(s).

Capitalization
The addition of unpaid interest to a loan's principal balance (original amount borrowed). Unless a loan is subsidized, you're responsible for paying the interest during all periods, starting from the date of the first loan disbursement. You can chose either to pay it as it accrues (while you're in school or during a grace period) or let it accrue and be added to the principal balance when you begin repayment. If you allow interest to be capitalized, the total amount you repay over the life of your loan will be greater than if you paid the interest as it accrued.

Cosigner
An individual who has the same responsibilities for repayment of a loan as the student borrower has; a cosigner is equally liable for the debt.

Cosigner release
The ability to relieve a cosigner of his or her loan obligation after specific criteria set by the lender is met.

Credit bureau or consumer reporting agency
An agency that gathers and stores credit information on a consumer's creditworthiness. If a credit report is needed for a loan application, a credit bureau produces a report based on the gathered data. If the application is accepted and a loan is disbursed, the lender also reports back to credit bureaus the amount an individual borrowed and whether the individual makes payments on time. The three largest bureaus are Equifax, Experion, and TransUnion.

CSS Profile®
An additional financial aid application (administered by the College Board) that some colleges require in order to determine eligibility for the college's own grant or scholarship money.

Default
The status that results when a loan is not paid back as promised, according to the terms and conditions of the credit agreement/promissory note. Upon default, loans are submitted to a guaranty agency, a collection agency, or the federal government for collection. The loan balance is due, in full, at the time of default.

Deferment
Entitlement to postpone payments when the borrower meets specific eligibility requirements set by the U.S. Department of Education.

Direct loans
Federal loans for students and PLUS loans for parents, obtained through a student's college and repaid to the federal government.

Direct PLUS loans — loans for graduate students or for the parent (biological, adoptive, or in some cases, stepparent) of a dependent undergraduate student enrolled at least half time at an eligible school. Interest accrues from the first disbursement, and unpaid interest is added to the principal balance.

Direct Subsidized loans — loans for eligible undergraduate students who demonstrate financial need (as determined by the FAFSA). Interest does not accrue while you're in school, in grace period, or in deferment.

Direct Unsubsidized loans — loans made to eligible undergraduate, graduate, and professional students, regardless of financial need. Interest does accrue while you're in school, in grace period, or in deferment; unpaid interest is then added to the principal balance.

Free Application for Federal Student Aid (FAFSA)

The federal application that all students must complete in order to be considered for financial aid, including education loans from the federal government and state grants from VSAC. Colleges also require this form for determination of their own financial aid.

Financial aid award notification

A communication (e-mail or letter) that each college sends to inform the student of his or her financial aid eligibility.

Fixed interest rate

A rate that remains the same over the life of the loan.

Forbearance

A period of time during which the borrower is permitted temporarily to stop making payments or reduce the amount of each payment. The borrower is liable for the interest that accrues on the loan during forbearance. Some forbearances are entitlements for eligible borrowers; others are granted solely at the discretion of the lender.

Grace period

The time after school enrollment ends and before loan repayment begins. Federal Direct student loans have a one-time, six-month grace period.

Grants

Outright gifts of money generally awarded based on a family's level of financial need. Grants are provided by the federal government, by your college, or by the state you live in. Vermont residents should apply for a Vermont grant through *myVSAC* at **www.vsac.org** or call 800-882-4166 for a paper application.

Income-based repayment (IBR)

One of several long-term repayment plan options for borrowers of federal education loans; your monthly loan payments are limited to a percentage of your annual income (includes spouse's income, if applicable). Monthly payments are adjusted annually based on changes in income and family size.

Income-sensitive repayment

An arrangement in which a monthly payment amount is based on a borrower's income and amount of education loan debt.

Interest rate

The fee a borrower pays for the use of money they borrow.

Lender

A bank or student-loan company that lends money to students and parents.

Master Promissory Note (MPN)

A legal document in which you promise to repay your loan(s), along with interest and fees, to the U.S. Department of Education. It also explains the terms and conditions of your loan(s).

On-time payment
A payment made within a required timeframe established by the lender.

Perkins loans
Loans for undergraduates and graduate students with exceptional financial need. The school is the lender and will determine your eligibility and the amount you'll receive. Interest does not accrue while the student is in school.

Principal balance
The amount of money still owed on a loan, not including accrued interest or future interest.

Repayment disclosure statement
A fact sheet that shows the repayment terms of a loan. It is typically sent to a borrower when the loan is taken out and/or at the beginning of repayment.

Repayment period
The span of time during which a borrower must make regular payments of principal and interest. The repayment period begins either immediately following the final disbursement of the loan funds or following the loan's grace period, whichever is applicable.

Scholarships
Gifts of money that do not need to be repaid. They're provided by any group, individual, or organization that wants to offer financial support to students who are furthering their education or training. You must apply for scholarships and compete with other students who apply. By taking time to apply for scholarships, you may be able to reduce your out-of-pocket costs for college.

Teaser interest rate
An advertised interest rate that's based on an exceptionally high credit rating. Either few borrowers actually receive this rate, or it is a very low variable rate that increases, with no maximum.

Variable interest rate
An interest rate that changes periodically in response to market conditions.

Work-study
Jobs arranged by colleges, usually in offices or departments on campus, to provide students with income up to a specific dollar amount each semester.

Vermont Advantage loans
VSAC's fixed-rate education loans available for parents and students to cover additional education costs not covered by federal Direct student loans. With lower rates than federal PLUS, these may be your lowest-cost option.

Vermont Advantage Parent Loan —
A fixed-rate loan for parents helping to finance their student's undergraduate or graduate education. Parent is the borrower.

Vermont Advantage Student Loan —
A fixed-rate loan for students who need additional financing for undergraduate or graduate education. Student is the borrower, with a cosigner (often a parent). Cosigner release may be available to qualified borrowers.

VSAC — Your partner in managing education debt

The Vermont Student Assistance Corporation provides:

- outreach and college access programs
- career and education planning information
- Vermont's 529 college savings plan
- grants and scholarships for Vermont residents
- education loans for undergraduates and graduate/professional students

Contact us

Online: **www.vsac.org**
Call: **800-226-1029**
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Fall 2016