credible

Student loan guide

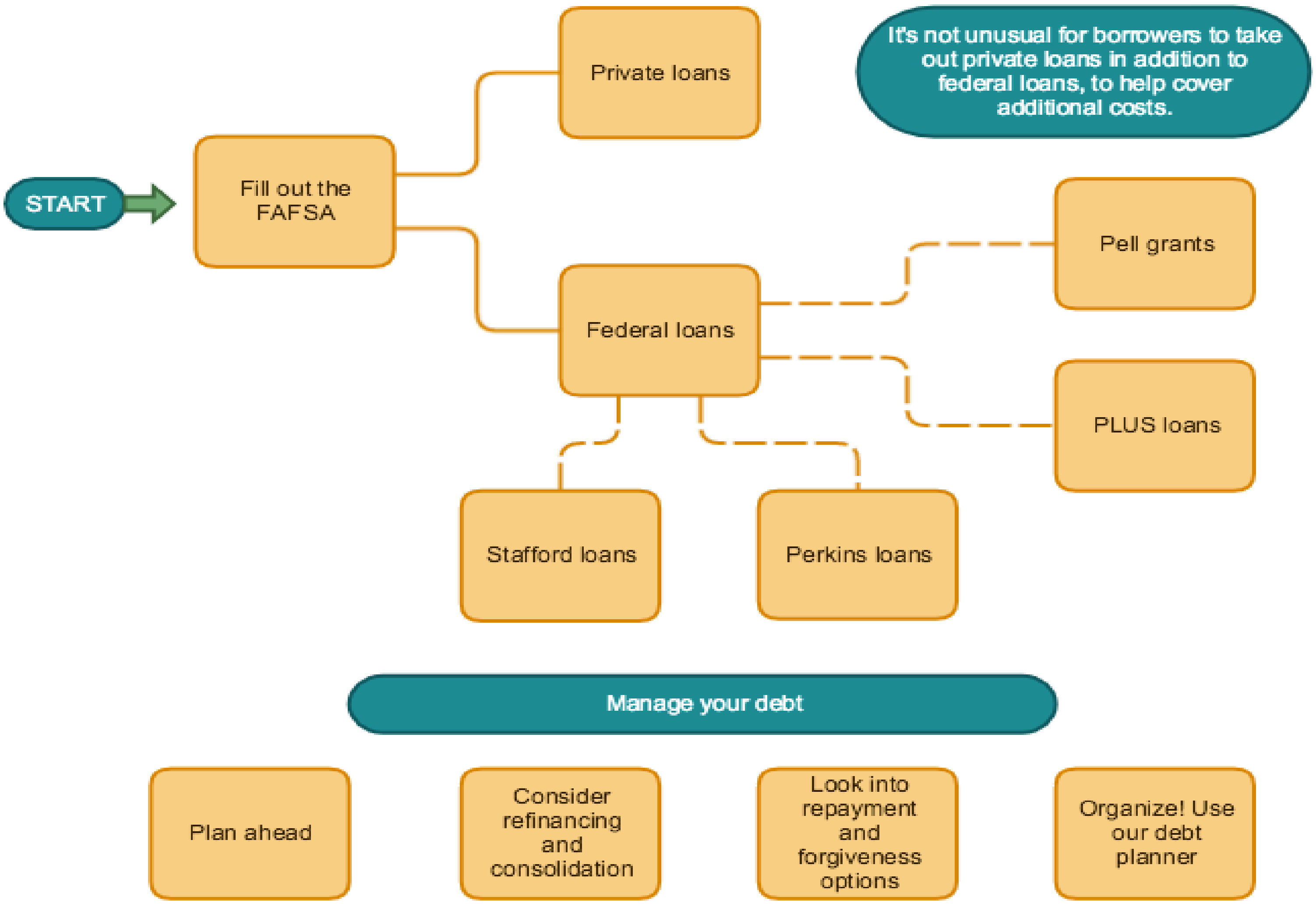
The ABCs of student loans and borrowing

KNOW BEFORE YOU OWE

Heading off to college can be daunting. You'll be navigating new academic challenges and social groups, and you may also be finding your way in an unfamiliar city. But more and more often these days, the hardest part about college is paying for it. As college tuition costs rise, more and more students and their families are taking out loans to help pay for school. Seven out of 10 recent college graduates find themselves loaded down with student debt -- $35,000 on average.

Dealing with student loan debt as you enter the real world can be overwhelming. This is why we believe the first step to successful borrowing and repayment of your student loans is education. We hope you'll use this guide to minimize the amount of debt you take on, better understand how the loan process works, and be empowered to choose the best loans for you.

Getting started with student loans



Filling out the FAFSA

To be eligible for federal loans, grants and scholarships, you must fill out the FASFA, which stands for the Free Application for Federal Student Aid. The government will send your FAFSA application to the schools you're applying to, and you'll be offered an aid package from each institution.

The FAFSA consists of two sections — one that relates to free grants and scholarships, and another pertaining to loans. Depending on your situation, you may be offered one or more federal loans, and you are allowed to accept or decline any of the aid detailed in the aid package.

Before making your decision, be sure to try to maximize the free grants and scholarships first, and then look to the lowest-cost loan options. You should also consider accepting federal work study, if available. Just don't let work interfere with your academic success.

If a combination of these non-loan options aren't enough to cover your costs, first consider federal loans, and then private loans.

Federal loans vs. private loans

There are two basic types of loans that you should know about: loans made by the federal government, and private loans from banks or other private lenders. Many state agencies also offer student loans that are funded through the sales of bonds -- these loans tend to have more in common with private loans than federal loans.

In general, you should take advantage of federal loans before turning to private loans. Federal loans offer borrowers many benefits and protections — such as loan deferment, forgiveness and repayment options — that private lenders generally can't match. Rates on federal loans for undergraduates are also hard to beat.

Private lenders and state agencies may be able to beat the rates on government loans for graduate students and parents, however. Private loans are worth looking at once you've hit your borrowing limit for federal loans, or have enrolled in grad school. After graduation, your income and credit history may allow you to save money by refinancing government loans at a better rate with private lenders.

Interest rates on federal loans are always fixed, which means that once you take out a loan, the rate won't change. Fixed-rate loans provide a measure of certainty, although your monthly payments on a federal loan can still go up over time if you choose an income-driven repayment plan.

While private lenders also offer fixed-rate loans, you can often get a lower rate with a private lender by taking out a variable-rate loan. Just remember that while interest rates are near historic lows today, they're apt to fluctuate in the future.

Diving deeper: federal loans

Federal loans come in three main flavors: subsidized, unsubsidized, and PLUS.

Direct loans

Here are some of the main differences between subsidized and unsubsidized loans, which are also referred to as “direct” or “Stafford” loans.

- Features: With a subsidized loan, the government pays your interest while you are still in school and during a six-month “grace period” after you graduate. With an unsubsidized loan, you are responsible for the interest as soon as it starts accruing -- even while you are in school. While unsubsidized loans are open to anyone, subsidized loans are only offered to undergrads who demonstrate financial need. Unsubsidized direct loans for graduate students carry higher interest rates.
- Eligibility: You are eligible for a direct loan if you are a dependent or independent undergraduate or graduate student.
- Application: Submit a FAFSA.
- Maximum allowed: The aggregate loan limit for dependent undergraduates is $31,000, and $57,000 for independent undergraduates. Either way, no more than $23,000 in undergraduate debt can be subsidized loans. For graduate and professional students, the limit is $138,000, of which no more than $65,500 can be in subsidized loans.

Perkins loans

Another type of federal loan is the Perkins loan, which is need-based. Perkins loans are subsidized, long-term, and come with low interest rates. The loan is made with combined funds from the government and your school.

However, the Perkins loan program is now being wound down. After Congress let the program expire last year, schools weren’t allowed to make new Perkins loans to students who weren’t already enrolled in the program before Oct. 1, 2014. Students already enrolled could keep getting loans until completing the program. The Federal Perkins Loan Program Extension Act of 2015, signed into law on Dec. 18, allows schools to bring additional students into the program, and continue providing loans to existing Perkins borrowers, for two more years. Students at participating schools who can demonstrate need will be able to receive Perkins loans through Sept. 30, 2017 -- but only if they’ve taken out all of the Federal Direct Loans that they’re eligible for. The bill doesn’t allow schools to issue any Perkins loans after that date. The cutoff for graduate students is Sept. 30, 2016, and only those who had received Perkins loans before Oct. 1, 2015, are eligible.

- Maximum allowed: Undergrads may receive $5,500 per year, totaling not more than $27,500. Graduate students may receive $8,000 per year, for a cumulative (undergraduate plus graduate school) maximum of $60,000.

Pell grants

Low-income students can take advantage of federal Pell grants, which aim to provide need-based grants to low-income undergraduate and certain graduate or professional students, in order to promote access to postsecondary education.

- Eligibility: You are eligible for a Pell grant if you are an undergraduate or vocational student enrolled in a participating school. Pell Grants are awarded usually only to students who have not earned a bachelor's or a professional degree.
- Application: Submit the FAFSA.
- Maximum allowed: For the 2015–16 award year (July 1, 2015, to June 30, 2016), the maximum award you can receive is $5,775. The amount you receive is based on factors such as financial need, cost of attendance, and whether you are a full-time or part-time student.

Federal PLUS loans

Lastly, parents of undergraduate student borrowers can take out federal loans on behalf of their children, if the students themselves are unable to qualify for a loan by themselves. These are known as PLUS loans, and are also available to graduate students. While it can be helpful to be able to have your parents borrow on your behalf, keep in mind that interest rates on PLUS loans are higher than on subsidized and unsubsidized federal direct student loans, and also carry a one-time loan fee of nearly 4.3 percent.

- Eligibility: You are eligible for a PLUS loan if you are a graduate or professional degree student, or a parent of a dependent undergraduate student.
- Application: Submit the FAFSA.
- Maximum allowed: The maximum loan amount is the student's cost of attendance (determined by the school) minus any other financial aid received.

If you were offered federal loans and want to accept them, you must go online and activate them (although some schools may require you to fill out a paper form). You'll be asked to sign a promissory note detailing the loans' terms and complete brief online loan counseling before the money goes from the government to your college.

Diving deeper: private loans

When it comes to private loans, terms and interest rates can vary depending on the borrower and the lender. While federal loans are standardized and everyone receives the same rates, private loans can be tailored to the borrower's financial situation and credit history.

If you shop around and are able to prove your ability to repay the loan in time, you may be able to find low interest rates from private lenders. While private loans that have variable interest rates will often seem like the best deal, interest rates can fluctuate, and it can be difficult for borrowers with variable-rate loans to predict their monthly payments in the future.

Also keep in mind that private loans don't always provide borrower protections guaranteed by federal loans, such as deferment or forbearance. If you're having trouble making your monthly payments, options like deferment and forbearance allow you to temporarily stop making payments on your loans. Certain private lenders may offer these benefits, so remember to check which options are available to you. As a rule, private lenders don't offer loan forgiveness for public service, or the option of choosing an income-driven repayment plans that allow you to make smaller monthly payments based on your income.

Applying for and accepting federal loans may be a tedious process, but in general, you should opt for federal loans and borrow as little as possible in the form of private loans. If you do have good credit, private loans can be an option for covering school and living expenses that exceed your federal loan limits. If you think you need to borrow more than federal loans will allow, consider a private loan, but do some research:

Things to remember

- Use a loan calculator, like the ones available on studentloans.gov, to determine the correct loan amount for you, as well as the various repayment options.
- While you're generally free to choose any private lender you choose, some schools may have a preferred lenders list. Remember that most student borrowers are required to apply with a cosigner, due to their lack of credit. Even if you do have some credit though, adding a co-signer could be incredibly beneficial. A qualified cosigner can help speed up a loan application and approval process, give you a better shot at being approved for a better loan, and help snag you a lower interest rate.
- Remember to check the terms and details of each loan. Consider factors like fees, eligibility requirements (some private loans require you attend school for a certain amount of hours or make certain grades), and the number and amount of monthly payments you must make. Also remember to check whether you will be allowed to begin repayment while still in school.

Managing your debt

While there are many ways student debt can trip you up, having loans can actually be beneficial. Not only can loans help you further your education and improve your chances of getting a well-paying job but, if you make timely payments, student loans can also help improve your credit score.

But never lose sight of the fact that a late payment can negatively impact your credit -- and the credit of any cosigners you might have. Further, if you are unable to find work, or land a job that does not pay as well as you expect, you may find yourself unable to pay back your loans. To prevent this, only borrow the amount you need, and rely as much as possible on scholarships, grants, and income from working while in school.

If you find you have trouble repaying federal student loans, you should also explore options such as deferment or forbearance. Above all, you must avoid default. Default is when a borrower simply does not meet his or her repayment obligation. If you have missed one or two payments, you are generally considered to only be delinquent — which basically means you are considered at risk of defaulting.

For most federal student loans, you will be considered to have defaulted if you have not made a payment in more than 270 days. Defaulting can result in serious consequences. If you default, your credit score will take a major hit. That could make it harder to borrow money, buy a house or car, or refinance your loans at a better interest rate.

In order to prevent the risk of default, do your research and plan ahead to ensure that you will have enough money coming in to always make your loan payments on time.

Consider refinancing or consolidation

Besides deferment and forbearance, there are other options — like loan refinancing or loan consolidation — that might be available to you. Consolidation lets you combine your government loans so you can make a single monthly payment. You can also extend the term of your loan, at the same interest rate, which could lower your monthly payments, but could mean you end up paying more in interest overall.

If consolidation is like getting your house professionally cleaned, you can think of refinancing as getting a whole new house. Refinancing is when you pay off your old loan, or loans, by taking out a new loan – typically at a lower interest rate. While a lower rate is good news, your new loan may not come with all the borrower benefits associated with government loans.

For more on how refinancing and consolidation can help you manage your student loans, check out Credible's refinancing guide.

Consider repayment options and loan forgiveness programs

If you have federal student loans, you may be eligible for an income-driven repayment plan. These plans — including the most recent plan, REPAYE — make it easier for you to pay back loans, by determining your monthly payments based on your annual income, the size of your family, and the type of loan you have. So you could potentially lower the amount you're required to pay each month.

Another option that might be available to borrowers with federal student loans is loan forgiveness. These are programs that will cancel all or some of your student debt after a certain period if you are deemed to be providing some public service. These include forgiveness programs for some teachers and nurses.

PLANNING YOUR DEBT

Most student loan providers will give you up to six months post college graduation, before you must start repaying your loans. This should give you more than enough time to plan your budget and take the necessary steps to help with your financial tracking. Here's a look at how you can plan ahead when you begin repaying your loans.

Determine your budget

When planning your budget, you should first determine your income sources (wages, tax refunds, family support etc.), and amounts, as well as your fixed and variable costs — list out realistic monthly costs!
Fixed expenses: rent, cable/internet, insurance, cell phone etc.
Variable expenses: Groceries, shopping, gas, credit card balances etc.

Determine monthly loan balance

Sign-in to the National Student Loan Data System (NSLDS) to figure out your federal loan balance, and use repayment estimators to determine your monthly costs. If you have private loans and do not see these on your NSLDS ledger, contact your school's financial aid representative to help you locate lender information. Another solution is to look for your loan distributors through your credit reports. You can get a free credit report here.

Reconfigure budget with loan payment

Once you have your student loans factored into your fixed expenses budget plan, take a second look at your budget and determine where you stand. If you find yourself in the red, look into the repayment options outlined above, as well as into loan refinancing or loan consolidation.

Remember: The more you know, the better prepared you'll be in the future. Student loans will relieve you from the burden of finances while you're in school, and taking responsibility now to account for your loan balances will reward you in the long-run. So what are you waiting for? Use our budget planner on the next page and start planning!

BUDGET PLANNER

Income source	Monthly amount
Total monthly income:	
Fixed expenses	**Monthly amount**
Total fixed expenses:	
Variable expenses	**Monthly amount**
Total variable expenses:	
Total expenses:	
Net income (total income - total expenses):	

THANK YOU!

We'd love to hear from you!

Credible is here to help you with all your student loans needs. See how much you can save by refinancing your student loans with Credible at www.credible.com! If you have any questions about refinancing, or you just want to chat about what options are available to you, please contact us directly at **415.801.0482** or email us at support@credible.com.

We look forward to hearing from you!

—The Credible Team

About Credible

Credible's founding principle is to provide borrowers the level of transparency they deserve.

As a multi-lender marketplace that allows borrowers to receive competitive loan offers from its vetted lenders, Credible empowers consumers to take control of their student loans. Borrowers can fill out one form, then receive and compare personalized offers from numerous lenders and choose which best serves their individual needs.

Credible is fiercely independent, committed to delivering fair and unbiased solutions in student lending.

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