CollegeLOAN Evaluator

FEDERAL STUDENT LOANS FOR UNDERGRADUATES

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February 2010
Volume 6, Issue 2

Every year I like to do a summary of student loans, both federal and private. This month we'll do a review of undergraduate federal student loans for both the student and the parent.

NCAG
National College Advocacy Group
Charter Member

Federal Unsubsidized Stafford Loan is in the student's name and is not a need-based loan. Interest starts to accrue on the loan immediately and, if not paid before the loan goes into repayment, will be added to the principal of the loan ("Interest Capitalization"). Loans disbursed after June 30, 2006, have a fixed interest rate of 6.8%. For the 2010-2011 academic year there is a 1% insurance premium fee that is deducted from the loan proceeds. Payments start six months after the student has left school and interest paid on the loan will qualify for the Student Loan Interest Deduction if the student's income is within the Modified Adjusted Gross Income Limits of the IRS. The amounts the student can borrow vary for each year of school and are as follows:

"….. cannot exceed $31,000….."

Undergraduate	Loan Amount
1st year	$ 5,500
2nd year	$ 6,500
3rd year	$ 7,500
4th year	$ 7,500
5th year	$ 4,000

The total amount of undergraduate Stafford Loans (subsidized and unsubsidized) cannot exceed $31,000 for a dependent student.

Federal Subsidized Stafford Loan is in the student's name. The loan is a need-based loan in which the Federal Government pays the interest on the loan until six months after the student leaves college. Loans disbursed after June 30, 2008, have the following fixed interest rates:

- 6% for loans first disbursed after June 30, 2008 and before July 1, 2009
- 5.6% for loans first disbursed after June 30, 2009 and before July 1, 2010
- 4.5% for loans first disbursed after June 30, 2010 and before July 1, 2011
- 3.4% for loans first disbursed after June 30, 2011 and before July 1, 2012

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For loans disbursed after June 30, 2012, the interest rate will increase to 6.8% unless Congress changes the law.

For the 2010-2011 academic year there is a 1% insurance premium fee that is deducted from the loan proceeds. Payments start six months after the student has left school and interest paid on the loan will qualify for the Student Loan Interest Deduction if the student's income is within the Modified Adjusted Gross Income Limits of the IRS. The amounts the student can borrow vary for each year of school and are as follows:

Undergraduate	Loan Amount
1st year	$ 3,500
2nd year	$ 4,500
3rd year	$ 5,500
4th year	$ 5,500
5th year	$ 4,000

Again, the total amount of undergraduate Stafford Loans (subsidized and unsubsidized) cannot exceed $31,000 for a dependent student.

Federal Perkins Loan is a low-interest, need-based loan (the rate is fixed at 5%) in the student's name. The interest is subsidized by the Federal Government until nine months after the student leaves college. The loan will qualify for the Student Loan Interest Deduction if the student's income is within the Modified Adjusted Gross Income Limits of the IRS. Repayment does not begin until after college. For loans disbursed after June 30, 2009, the maximum annual loan amount for an undergraduate student will be increased to $5,500 per year. The total amount of undergraduate Perkins Loans cannot exceed $27,500 for a dependent student.

Federal Parent Loan for Undergraduate Student (PLUS) is a loan in the name of one of the parents. If one parent does not qualify for the loan the other parent can apply for the loan. This loan is neither need-based nor merit-based. Loans disbursed after June 30, 2006, have a fixed interest rate of 8.5% under the Federal Family Education Loan (FFEL) Program and a 7.9% fixed interest rate under the U.S. Department of Education's Direct Loan Program (the college determines which program it will use). The amount that can be borrowed is the total cost of college less any financial aid and distributions from certain educational tax benefit accounts. If, at any time during the term of the loan, the borrower dies or becomes totally disabled, the loan is forgiven. For the 2010-2011 academic year there are a 3% origination fee and a 1% insurance premium fee that are deducted from the loan proceeds. Interest paid by the parent on this loan will qualify for the Student Loan Interest Deduction if the parents' income is within the Modified Adjusted Gross Income Limits of the IRS.

"…..rates will increase to 6.8% ….."

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Payments start within 60 days of the final disbursement of the loan and are based on a 10 year term. For loans disbursed after June 30, 2008, the borrower has the following repayment options after he has entered repayment:

1. The borrower can make interest only payments while the student is in school and start payments of principal and interest after the student leaves school; or
2. The borrower can defer all payments until six months after the student leaves school. In this option the interest accrues and is added on to the loan when repayment begins.

If you have any questions, please give us a call at 315/487-4567 or email us at gec@collegeloanevaluator.com.

"…. repayment options….."

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