



the  
**LOANS**  
issue



**MONEY**  
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# Things that make you go hmmm....

**Own Your Own Home**  
How to buy a home in 15 years...

**Balloons? Did the circus come to town..**  
What does a balloon have to do with buying a home?

**HELOC?**  
Is this a new helicopter?

## THE LOANS

## ISSUE

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# INTRODUCTION



This module provides information on these different types of loans:

- Mortgage Loans – Fixed and Adjustable Rate, Two-Step and Balloon, Interest-Only, Construction, Jumbo, and Assumable
- Home Equity Loans
- Auto Loans
- Debt Consolidation Loans
- Student Loans

The simple definition of a loan is a sum of money provided to a borrower, at a specified rate of interest, for temporary use. Loans have become quite specialized, and, as a result, different types of loans serve different specific functions.

The key to getting a loan approved is your credit score. Your credit score will determine the availability of credit as well as the interest rate you will be charged.

# TERMS TO LEARN

## Adjustable Rate Mortgage (ARM)

A mortgage for which the interest rate is not fixed; it fluctuates during the life of the loan as interest rate conditions change.

## Annual Percentage Rate (APR)

A yearly rate of interest that includes fees and costs paid to acquire the loan. Lenders are required by law to disclose the APR.

## Charge-off

A loan or credit card debt written off as uncollectible from the borrower. The debt, however, remains valid and subject to collection.

## Closing

The final signing of mortgage documents and the payment of associated down payments and fees.

## Collateral

Anything used as security for payment of a debt or performance of a contract.

## Credit History

This includes the borrower's name and identification number, the date each credit account was opened, credit limits, current balances, monthly payment amounts, credit/debt repayment history, and payment frequency for the last 12 to 24 months for each credit guarantor. Records are dated with each request or entry. Other information includes, but is not limited to, consumer disputes, criminal convictions, individual liability or joint liability of accounts, secured accounts, and charge-offs.

## Credit Report

A report that contains information about a particular consumer's borrowing habits and money-managing skills. Lenders use it in conjunction with a credit score to determine whether to approve a loan and to set the terms. A person with a good credit report is likely to get a better interest rate than someone with

a poor credit report.

## Credit Score

A number representing the likelihood that a prospective borrower will fail to repay a loan, or other credit, over a specific period of time. It is based on information from an individual's credit report and is used to determine whether to extend credit to a borrower and, if so, how much, at what interest rate, and for what time period.

## Debtor

An individual or institution that owes an obligation to another party. If the debt is in the form of a loan from a financial institution, the debtor is referred to as a borrower. If the debt is in the form of securities, such as bonds, the debtor is referred to as an issuer.

## Earnest Money

A deposit from a buyer that binds a contract during the negotiation phase so that the seller cannot sell the contracted item or property to another buyer. This deposit may or may not be refundable if the sale is not completed.

## Escrow Account

An account from which the mortgage company typically pays property taxes and homeowners' insurance on behalf of the home/property owner.

## Fair Credit Reporting Act (FCRA)

This act allows for the prompt correction of errors in a credit account and prevents damage to the credit record while disputes are settled.

## Fair Debt Collection Practices Act

This act prohibits debt collection agencies from abusive collection practices. The act allows consumers to dispute a debt and to stop any unreasonable collection activities, such as calling before 8 AM or after 9 PM, harassment, false statements, threatening action that is not permissible, and other unfair practices.



## FICO

The FICO score was created by the Fair Isaac Corporation. FICO scores are developed using complex statistical models that associate certain borrower traits with the likelihood of repayment.

\*FICO scores are also known as BEACON scores at Equifax, Experian/Fair Isaac score at Experian, Empirian Scores at TransUnion.

## Fixed Rate Mortgage

Property loan with the same interest rate over the entire term of the loan.

## Foreclosure

The legal proceeding in which a bank or other secured creditor sells or repossesses a parcel of real property due to the owner's failure to comply with a loan repayment.

## Home Equity

The dollar value of the home in excess of the amount owed on it.

## Lender

Someone who lends money or gives credit in business matters.

## Loan

A sum of money provided to a borrower, at a specified rate, for a temporary period of time.

## Mortgage

A document describing the terms and conditions for a loan on property. Mortgages are usually repaid in monthly payments which include the principal amount due that month plus the interest (the charge for borrowing money).

The payment may also include an amount to fund an escrow account for property taxes and/or insurance.

## Mortgage Interest Rate

The charge for borrowing money for a home or property, usually expressed as an annual percentage rate (APR) applied to the amount owed (the outstanding principal amount).

## PITI

This acronym refers to the inclusion of principal, interest, taxes, and insurance in a mortgage payment.

## Points

In real estate mortgages, the initial fee charged by the lender, with each point being equal to 1% of the amount of the loan. It can also refer to each percentage point difference between a mortgage's interest rate and the prime interest rate.

## Truth in Lending Act

This act requires credit grantors to provide the annual percentage rate (APR) of any loan prior to signing. The APR reflects the true cost of the credit.

## Variable Interest Rate

An interest rate that moves up or down periodically, based on changes to the prime rate.



# MORTGAGE LOANS

A mortgage is a long-term loan that a borrower obtains to purchase a house and/or property. The house and the land on which it is built serve as collateral for the loan. If the borrower does not make payments as agreed, the lender has the power to take the home through foreclosure. The payment can include PITI, which is a portion of each of these costs:

- **Principal** - The loan balance
- **Interest** - The cost of borrowing money, usually expressed as a percentage per year.
- **Taxes** - Real estate taxes assessed by different government agencies to pay for school construction, fire departments, etc.
- **Insurance** - Insurance coverage on the property against theft, fire, disasters, etc.



**The kind of mortgage a borrower has will determine what is included in the payments. There are several different types of mortgages.**

## FIXED RATE

The most common mortgages are fixed rate mortgages. These loans feature fixed interest rates and monthly payments, generally for 15- and 30-year periods.

They are popular because of the fixed monthly payment and affordability when interest rates are low. There are advantages and disadvantages to 15- and 30-year fixed rate mortgages.

### ADVANTAGES

#### Advantages of a 30-year fixed rate

Offers the chance to borrow money on a long-term basis without having to worry about the interest rates or payments changing. Monthly payments are lower than those on 15-year loans because the interest is paid back over a longer period. Lower monthly payments free up money that can be put into investments. A higher interest bill increases the amount consumers can deduct at tax time, potentially reducing or eliminating their federal income tax liabilities.

#### Advantages of a 15-year fixed rate

Borrowers build equity much more quickly due to shorter payback schedules. Overall interest bills are dramatically lower than those on longer-term loans.

The interest rates are lower than 30-year loans.

### DISADVANTAGES

#### Disadvantages of a 30-year fixed rate

Borrowers build equity at a very slow pace because payments during the first several years go largely toward interest rather than principal. The overall interest bill is much higher because of the long payback time. The interest rates are higher than on 15-year loans.

#### Disadvantages of a 15-year fixed rate

Monthly payments can be significantly higher than those on 30-year loans. Restricts home buyers to a smaller house than they might be able to afford with longer-term loans.

Keep in mind that you can pay off your mortgage early, saving money that would be spent on interest over the original loan term.





# ADJUSTABLE RATE (ARM)

If you are comfortable with a mortgage payment that fluctuates as market interest rates change, then an adjustable rate mortgage (ARM) may be for you. Most ARMs have an initial fixed rate period during which the borrower's interest rate does not change, followed by a much longer period during which the rate changes at preset intervals.

Adjustable rates start lower than those for comparable fixed rate mortgages. The initial fixed rate period can be as short as a month or as long as 10 years. A typical 5/1 ARM has an initial fixed rate period of 5 years; the rate is adjusted annually thereafter. There are protections from extreme changes to the ARM rate and a limit on the amount the payment can be adjusted.

These caps come in different forms. The most common are:

- Periodic rate cap - Limits how much the rate can change at any one time. These are usually annual caps or caps that prevent the rate from increasing more than a certain number of percentage points in any given year.
- Lifetime cap - Limits how much the interest rate can rise over the life of the loan.
- Payment cap - Offered on some ARMs, it limits the amount the monthly payment can increase (in dollars) over the life of the loan, rather than how much the rate can change in percentage points.

## ADVANTAGES

Features lower rates and payments early in the loan term. Because lenders can use the lower payment when qualifying borrowers, people can buy larger homes than they otherwise could buy.

Allows borrowers to take advantage of falling rates without refinancing. Instead of having to pay a whole new set of closing costs and fees, ARM borrowers just sit back and watch the rates (and their monthly payments) fall.

Helps borrowers save and invest more money. Someone who has a payment that's \$100 less with an ARM can put away that money and earn more from it in a higher-yielding investment.

Offers a cheap way for borrowers who don't plan on living in one place for very long to buy a house.

## DISADVANTAGES

Rates and payments can rise significantly over the life of the loan. A 6% ARM can end up at 11% in just three years if rates rise sharply.

A borrower's initial low rate will adjust to a level higher than the going fixed rate level in almost every case, even if rates in the economy as a whole don't change. That's because ARMs have initial fixed rates that are set artificially low.

The first adjustment can be extreme because some annual caps don't apply to the initial change. Someone with an annual cap of 2% and a lifetime cap of 6% could theoretically see the rate shoot from 6% to 12% in the 12 months after closing if rates in the overall economy skyrocket.

ARMs are difficult to understand. Lenders have much more flexibility when determining margins, caps, adjustment indexes, and other things, so unsophisticated borrowers can easily get confused or trapped by shady mortgage companies.

On certain ARMs, called negative amortization loans, borrowers can end up owing more money than they did at closing. That's because the payments on these loans are set so low (to make the loans even more affordable) they only cover part of the interest due. Any additional amount due is rolled into the principal balance.

# DIFFERENT TYPES OF ARM

## TWO-STEP MORTGAGE

Two-Step mortgages combine elements of fixed and adjustable rate mortgages. They go by confusing names such as 2/28, 5/25, or 7/23. A two-step mortgage features a fixed rate and payment for an initial period, followed by one

adjustment, then a fixed rate and payment for the remainder of the loan term. A 7/23, for example, has an initial fixed period of 7 years, an adjustment, and then 23 more years of payments following the adjustment.

### ADVANTAGES

Opportunity for credit-damaged borrowers to buy homes and to establish better credit.

### DISADVANTAGES

If your credit does not improve, you could be stuck in a high-rate loan for much longer than 2 or 3 years.



## BALLOON MORTGAGE

With balloon mortgages borrowers get lower rates and payments for a specific period of time, usually anywhere from 3 years to 10 years. At that point, a borrower has to pay off the principal balance in a lump sum.

Under certain conditions, the mortgage can be converted to a fixed rate or adjustable rate loan. Many borrowers either sell their homes before they get to their due date or end up refinancing their balance into a new mortgage.

### ADVANTAGES

Save on mortgage costs initially - a great option if you don't plan on living in the home long.

### DISADVANTAGES

Sometimes, plans change. If yours do, you will have to pay off or refinance the balance, which takes time, effort, and more closing costs.

# OTHER MORTGAGE TYPES

## INTEREST-ONLY

An interest-only loan is one that gives you the option of paying just the interest or the interest plus as much principal as you want in a given month during an initial period of time. Interest-only loans can be 30-year fixed rate or adjustable rate mortgages and are technically interest-only for the first 3, 5, 7, or 10 years. If you choose to make the interest-only payment, your monthly payment will be lower than it would be with an interest and principal payment. Your interest rate may or may not be lower than a traditional mortgage, but you will have the option of flexible payments.

Interest-only loans allow you to control your payment amount and your cash flow in a given month during the interest-only period.

A common misconception is that if you're not paying down your loan's principal, you're not building equity in your home. That may or may not be true. Home values in the U.S. have been appreciating between 5% and 6% a year. Even if you're not paying down your principal, you may be building equity in your home through appreciation, depending on market value fluctuation.

### ADVANTAGES

Low mortgage payments, even for borrowers with low credit scores.

### DISADVANTAGES

Pay much more interest for keeping the home for an extended period of time.

## CONSTRUCTION MORTGAGE

Construction mortgages help people who want to build homes rather than buy existing ones. They typically feature a two phase borrowing process. Borrowers pay higher rates for the duration of construction, during which time they draw

money to pay their contractors, and pay only interest on the outstanding amount. Then, they go through a second closing at which time the loan usually is converted to a traditional, long-term fixed rate structure.

## JUMBO MORTGAGE

This is considered a nonconforming loan because it exceeds the loan limit set by Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). These two publicly-chartered corporations buy mortgage loans from lenders, thereby ensuring that mortgage money is available at all times in

all locations around the country.

The single-family loan limit changes annually. If you need to borrow more than that, you will need a jumbo mortgage, which generally requires a larger down payment and has a higher interest rate than a "conforming" loan.

### ADVANTAGES

Opportunity to buy a more expensive home.

### DISADVANTAGES

Pay a higher interest rate in exchange for the lender's higher risk.

## ASSUMABLE MORTGAGE

Assumable mortgages are relatively rare. A homeowner with an assumable loan can "hand off" the loan to a buyer instead of paying it off using proceeds from the home sale. If rates are low and you can get one, by all means do so.

If rates rise, buyers will want to assume your loan (and might be willing to pay more for your house) because it will be much cheaper than any loan they could get from a bank or other source.

### ADVANTAGES

Reduces monthly payments and saves money on closing costs.

### DISADVANTAGES

Sellers charge more for houses, so buyers need more cash to cover the difference between the asking price and the loan balance.



# HOME EQUITY LOANS

A home equity loan allows you to borrow money using your home's equity as collateral.

Equity is the difference between how much the home is worth and how much you owe on the mortgage. Home equity loans can be used for home improvements, debt consolidation, college education, and other expenses.

There are two types of home equity debt: home equity loans and home equity lines of credit (HELOCs). Both are sometimes referred to as a second mortgage but are usually repaid in a shorter period of time than the first mortgage.

A home equity loan is a one-time lump sum that is paid off over a set amount of time, with a fixed interest rate and the same payments each month. Once you get the money, you cannot borrow further from the loan.

A home equity line of credit, or HELOC, works more like a credit card because it has a revolving balance. A HELOC allows you to borrow up to a certain amount for the life of the loan; a time limit set by the lender. During that time, you can withdraw money as you need it. As you pay off the principal, you can use the credit again, like a credit card.

A HELOC gives you more flexibility than a fixed rate home equity loan.

It is also possible to remain in debt with a home equity loan, paying only interest and not paying down principal. A line of credit has a variable interest rate that fluctuates over the life of the loan.

Payments vary depending on the interest rate, the amount owed, and whether the credit line is in the draw period or the repayment period. During the equity line's draw period, you can borrow against it, and the minimum monthly payments cover only the interest, although you can elect to pay principal. During the repayment period, you can't add new debt and must repay the balance over the remaining life of the loan.

## ADVANTAGES

- In most cases, borrowers can deduct the interest on loans up to \$100,000 on their taxes.
- The loans carry lower interest rates than credit cards and unsecured personal loans.
- They can be used for lots of things: debt consolidation, home improvements, tuition, medical costs, emergencies, and big-ticket items.
- With a home equity loan or HELOC, you have to pay off the balance when you sell the house, so you do not leave your property with additional debt.



## DISADVANTAGES

- If you default, you could lose your home, possibly your biggest asset.
- Such loans can be a risky spending tool for younger homeowners not established in their careers and with less experience owning a home and managing money.
- The loans can be risky for older homeowners who may not have adequate resources required for repayment of the additional loan.
- Credit lines can have variable interest rates, so monthly payments can rise, even if your income does not.
- If your home's value drops, you can end up owing more than the house is worth.
- Using an equity loan to pay off debt may make monthly payment cheaper but could cost you more in the long haul because you're taking much more time to pay off the debt.
- You may not be able to lease your home during the term of your loan.



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[www.consumerserviceallianceoftexas.org](http://www.consumerserviceallianceoftexas.org)

# AUTO LOANS

The internet is a great resource for information to research the car you want, the options available, and the suggested retail price. Before you make your final decision on which car to buy, make sure your research is thorough. You also need to determine how much

cash you have for a down payment; this will affect your monthly payment. One of the most important components of a car deal is the financing. Many wise consumers have negotiated an excellent deal when buying a car, only to give back a good deal of the money

they saved when it came time to finance the car. Whether you have a shiny credit rating or one that has some glitches in it, financing a car can be complex. There are several different types of financing available and many places to finance.

## WHERE SHOULD I SECURE CAR FINANCING?

You must prepare yourself to get a good deal in the financing office just as you prepared yourself to get a good deal on the price of the car. Do your homework in advance, and check your credit so you can eliminate any errors or discrepancies as soon as possible.

Understanding your credit can save you money and ensure you'll receive the interest rate you're expecting. With preapproved credit, you may be in a better frame of mind to bargain with the dealer for a favorable price. Be familiar with the sources of financing, and compare your options before you visit the dealerships.

## HERE ARE SOME FUNDING OPTIONS TO CONSIDER:

### Local banks

The advantage is that you may already have a relationship with your local bank. You can finance locally and make payments locally. You still need to compare interest rates and determine that you meet their credit requirements.

### The internet

The internet makes it easy to compare and apply for car loans.

### Credit Unions

You may find savings in the interest rates at a credit union. This is a good place to look because of their non-profit status and competitive terms. They can only calculate interest using the "simple" method.

### Home equity loan

You'll get a good interest rate and the payments will be tax deductible. Be sure that such a loan won't leave you in danger of losing your house. After all, it's just a car.

### The dealer

The advantage here is convenience. You can buy the car there and finance the car there. Remember that the finance department is a source of revenue for the car dealership. The difference between the rate at which you finance the car and the rate at which the dealership is able to secure financing is the dealership's profit, which can often be substantial. Be aware that the quote from the dealer could also include credit insurances such as life and liability insurances, which you may not need.

## How long can I finance a vehicle?

The number of months that you can finance a vehicle is largely determined by the vehicle's age. New vehicles can be financed up to 72 months, although 60 months is the most common term. The terms on used vehicle financing will be shorter if the vehicle is older.

For example, you may be able to finance a 2008 model for 48 months while a 2006 model can be financed for only 36 months. Remember that time is money; the longer your loan term is, the more it will cost you and the longer it will take you to reach a point where you're no longer "upside down" on your loan - meaning you owe more than the car is worth.

Make sure you weigh the advantages and disadvantages of a specific financing source and term to determine the appropriate option. Obtain as many quotes from as many different financing sources as possible. Conduct this research in a limited period of time so that the credit reporting agencies will recognize the activity as rate shopping. The more comparisons you have, the better chance you have to save money. Compare rates

and plans available to you. Keep in mind that interest rates on new cars are lower than on used vehicles. Because new cars can be financed over longer terms than used ones, a new car may be cheaper than a used one in many cases. Be aware that zero-percent financing promotions are usually limited to three years.

Depending on vehicle price, the payment may be too high. You might be better off taking a cash rebate, if available, than a low loan rate. For example: \$20,000 car – you would pay a total of \$21,633 on a 4-year loan at 3.9%.

If you buy the same car with a \$1,500 rebate and finance \$18,500 for 4 years at 5.9%, your bottom line is \$20,851, which is \$782 less than using the lower interest rate.

The best course of action is to negotiate the price of the vehicle as though you're paying cash or have outside financing. Tell the dealer what you've already secured in terms of the length of loan and the interest rate and ask if he can beat it.

Never let the dealer negotiate for the monthly payment amount. Negotiate the price of the car first, then the financing options.



# DEBT CONSOLIDATION LOANS

A Consolidation Loan is designed to take all or most of your current debt and combine it into a single new loan.

## How does it work?

A consolidation loan is presumed to have a lower overall interest rate than the combined existing debts.

The lower rate and the single payment make consolidation loans appealing. They result in lower overall payments and less interest paid on the loan. Banks and credit unions typically have lower interest rates than credit cards; sometimes much lower. It is therefore relatively easy to get a new loan from a bank or credit union, pay off

the credit cards, and save. A challenge with consolidation loans is they also require a change in behavior and a commitment from the borrower. Success assumes you will make the payments on the new loan, put the difference into a savings account, and refrain from running up new debt.





**Debt management is an important skill to master, no matter what life stage you are in. As a college student, you are laying the foundation for your future financial life.**

**Once you leave college, one of the most critical things you have to do is deal with the debt you incurred in college. This can seem overwhelming, but making a plan and sticking to it diligently can help you get out of debt fast and help you reach your other financial goals.**

**Before you sign to borrow money for a loan, explore your options and know all the rules of game.**

**LEARN. SMART.  
LEARN. SMART.**



# STUDENT LOANS

There are plenty of tools available to finance higher education. No capable student should be denied a college education because of a lack of funds, but figuring out how to pay for it takes a little planning, some learning, and a certain amount of research.

An education loan is a form of financial aid that must be repaid, with interest.

Education loans come in three major categories:

- Student loans (e.g., Stafford and Perkins loans, and federal government)
- Parent Loans (e.g., PLUS loans)
- Private education loans (also called alternative education loans)



Many students rely on federal government loans to finance their education. These loans have low interest rates and do not require credit checks or collateral. FAFSA (Free Application for Federal Student Aid) forms are required for all federal student financial aid. You can fill out a FAFSA on paper or online.

As you complete the FAFSA, you — and your parents, if applicable — should have financial records available to help you answer questions on the application. The website lists those records for you. Check out [www.fafsa.ed.gov](http://www.fafsa.ed.gov). Check with the high school counselor and the chosen colleges on their deadlines for FAFSA applications. Apply as early as possible.

After receiving your completed application, the Department of Education's processor will analyze your FAFSA information and, using a formula established into law by Congress, calculate an Expected Family Contribution (EFC) for you. The EFC is not the amount of money that your family is expected to pay for your education, nor is it the amount of financial aid that you will receive.

The EFC demonstrates your family's financial strength to pay for education after high school. The results of your application will be sent to the schools you list on your application and to you in the form of a Student Aid Report (SAR) or a SAR Acknowledgement. Each school will subtract your EFC (plus any Pell Grant you receive) from your total anticipated cost of attendance.

The result is your financial need. If you have a valid e-mail address on file, you will receive an e-mail that provides you with a link to a website that will allow you to check and print your SAR data.

Many states and schools also use the FAFSA data to award aid from their programs. Some states and schools also may require you to complete additional applications.



# STAFFORD LOAN

The main federal loan for students, the Stafford Loan, has two variations: Federal Family Education Loan Program (FFELP) loans are provided by private lenders, such as banks, credit unions and savings & loan associations. These loans are guaranteed against default by the federal government.

Federal Direct Student Loan Program (FDSL) loans, administered by "Direct Lending Schools," are provided by the U.S. government directly to students and their parents.

All Stafford Loans are either subsidized (the government pays the interest while you're in school) or unsubsidized (you pay all the interest, although you can have the payments deferred until after graduation). To receive a subsidized Stafford Loan, you must be able to demonstrate financial need.

With the unsubsidized Stafford loan, you can defer the payments until after graduation by capitalizing the interest. This adds the interest payments to the loan balance,

increasing the size and cost of the loan. All students, regardless of need, are eligible for the unsubsidized Stafford Loan.

Many students combine subsidized loans with unsubsidized loans to borrow the maximum amount permitted each year. Stafford Loans have a fixed interest rate, and all lenders offer the same rate for each Stafford Loan, although some may give discounts for on-time and electronic payments.

## Stafford Loan Limits

The Federal Stafford Subsidized and Unsubsidized Loan programs carry both annual and cumulative (lifetime) limits. Your SAR (Student Aid Report) lists your cumulative loans, but it is important that you also keep records of all your loan transactions. You can also look up your loan history online at: [www.nslds.ed.gov](http://www.nslds.ed.gov).

Student Level & Dependency Status	Maximum Stafford (subsidized and unsubsidized)	Maximum Subsidized
Dependent freshman	\$5,500	\$3,500
Dependent sophomore	\$6,500	\$4,500
Dependent junior or senior	\$7,500	\$5,500
Independent freshman	\$9,500	\$3,500
Independent sophomore	\$10,500	\$4,500
Independent junior or senior	\$12,500	\$5,500
Graduate/professional *	\$20,500	\$8,500
Medical	\$40,500	\$8,500

\* The annual maximum for graduate students in selected clinical psychology majors may be increased to \$31,000 with a maximum of \$8,500 subsidized, depending upon financial need and cost of attendance.

## Lifetime limits (beginning 2008-2009)

The graduate debt limit includes loans received for undergraduate study. If you reach your lifetime loan limit, you cannot receive any more of that type of loan. If you exceed your limit, aid already disbursed will be billed back. You will have to find alternate ways to finance your education. Therefore it is to your advantage to borrow only what you need for educational expenses, and to keep track of your cumulative debt. OFA advisors are happy to work with you to find ways to minimize your borrowing.

Student Level & Dependency Status	Maximum Stafford (subsidized and unsubsidized)	Maximum Subsidized
Dependent undergraduate	\$31,000	\$23,000
Independent undergraduate	\$57,500	\$23,000
Graduate/Professional	\$138,500	\$65,500
Medical	\$224,000	\$65,500



## PERKINS LOAN

The Perkins Loan is awarded to undergraduate and graduate students with exceptional financial need. This is a campus-based loan program, with the school acting as the lender using a limited pool of funds provided by the federal government. The Perkins Loan is the best student loan available. It is a subsidized loan, with the interest being paid by the federal government during the in-school and 9-month grace periods. There are no origination or guarantee fees, and the interest rate is 5%. There is a 10-year repayment period.

The amount of Perkins loan you receive is determined by your school's financial aid office. The program limits are \$4000 per year for undergraduate students and \$6000 per year for graduate students, with cumulative limits of \$20,000 for the undergraduate loans and \$40,000 for undergraduate and graduate loans combined.

Institutions participating in the Expanded Lending Option (ELO) may offer higher loan limits for the Perkins Loan. To participate in the ELO, a school must have a default rate no higher than 15%.

The annual loan limits are increased by \$1,000 each for undergraduate and graduate students. The cumulative limits increased by \$5,000 and \$10,000, respectively.

The Perkins Loan also offers better cancellation provisions than Stafford or PLUS loans.

## PARENT LOANS

Parents of dependent students can take out loans to supplement their children's aid packages. The Federal Parent Loan for Undergraduate Students (PLUS) lets parents borrow money to cover any costs not already covered by the student's financial aid package, up to the full cost of attendance.

There is no cumulative limit. Like the Stafford Loan, PLUS loans are either FFELP (provided by private lenders, such as banks) or Direct (funds provided by the government).

As of July 1, 2006, graduate and professional students are also able to borrow money through the PLUS Loan program to pay for their own education. PLUS Loans have a fixed interest rate, repayment begins 60 days after the funds are fully disbursed, and the repayment term is up to 10 years. There is no grace period as there is with the Stafford Loan program.

Some lenders allow parents to defer payment on the PLUS Loan while the student is enrolled in school by capitalizing the interest. Interest is capitalized no more frequently than quarterly. (Payments can also be deferred if the parents are themselves enrolled in college. They will need to submit an application for an in-school deferment.)

PLUS loans are the financial responsibility of the parents, not the student. If the student agrees to make payments on the PLUS loan but fails to make the payments on time, the parents will be held responsible.

## PRIVATE EDUCATION LOANS

Private Education Loans, also known as Alternative Education Loans, help bridge the gap between the actual cost of your education and the limited amount the government allows you to borrow in its programs. Private loans are offered by private lenders, and there are no federal forms to complete.

Some families turn to private education loans when the federal loans don't provide enough money or when they need more flexible repayment options. For example, a parent might want to defer repayment until the student graduates, an option that may not be available from the government parent loan program. (Many PLUS loan providers are starting to allow parents to defer payments while the student is in school.)

Lenders provide different types of private education loans, depending on the student's level of study. There are no payments due while attending school, and there are no annual loan limits. One drawback may be that private educational loans tend to cost more than the loans offered by the Federal government.



# DREAM. SMART.

Taking control of your spending and managing your debt today can help pave the way to achieving your long-term financial goals, whether those goals are paying off your credit cards, saving for a special trip, or paying your college tuition. Having your finances in order, understanding your credit report, and maintaining a good credit score are key ingredients to financial success.

# CONCLUSION

There are many different types of loans, offered by many different sources, which serve many different functions. Use the internet to research the loan that best suits your need. The internet provides calculators, up-to-date interest rates, and lender information that will help you find the right loan, for the right purpose, at the right price.

