

# The no-nonsense guide to **education loans**



for families of **undergraduate** students  
2009–2010 academic year

# The straight scoop on undergraduate education loans — from VSAC, your trusted college planning advisor

If you're looking for plain, honest information about paying for college, you need someone you can trust. For more than 40 years, the Vermont Student Assistance Corporation (VSAC) has been that resource, assisting generations of Vermont families on the pathway to college. We've put together this guide so you'll be better informed and prepared to make the college financing choices that are right for *your* family's situation, too.

## You have questions ...

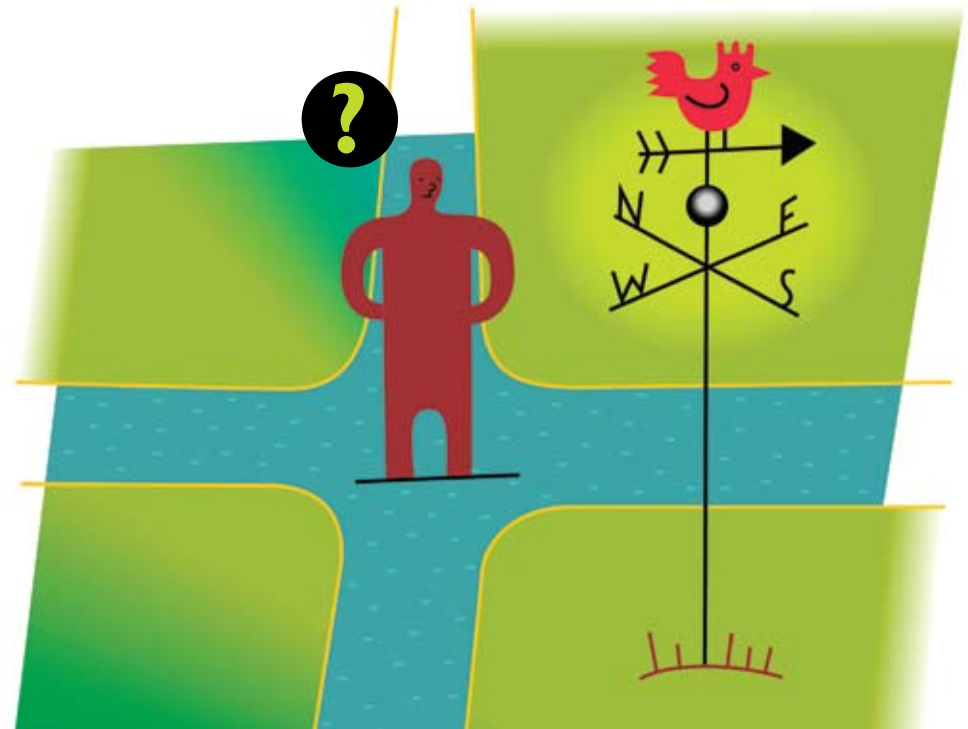
No doubt about it — the challenge of paying for college can seem overwhelming, especially in our current economic climate. So it's not surprising that you may have some concerns and questions: *What are all my financing options? What makes the most sense for my family? How do I know what a loan will really cost me? Which type of loan is best?*

## ... VSAC has answers

As a public, nonprofit organization, VSAC is dedicated to reducing the cost of financing education for Vermont students — whether they are going to college in state, out of state, or abroad. Our mission is to ensure that your child has the information and financing he or she needs to pursue education or training after high school, whatever that path may be.

## We're on your side

At VSAC, we work for *you*. We aren't a large, national financial institution and we don't have shareholders or a distant home office that calls the shots. We're here to give you unparalleled customer service to help you decide which financing options are best for your situation. There are no tricks, no hidden fine print, and no pressure. We take the time to sit with you, listen to your needs, and answer any questions you have.



## VSAC is your one-stop, full-service college planning resource.

The Vermont Student Assistance Corporation (VSAC) provides:

- career and education planning services
- grants and scholarships
- federal Stafford loans for undergraduate and graduate/professional students
- federal PLUS loans for parents and graduate/professional students
- private education loans
- Vermont's 529 college savings plan (VHEIP — the Vermont Higher Education Investment Plan)

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

# Start from the beginning: loan basics

Before we get into loans, you should know that it really is worth the time and energy to apply for grants and scholarships. Even if you don't think your family will qualify for need-based aid, your child may be eligible for scholarships based on residency, community service, academics, and other criteria. Go to [www.vsac.org](http://www.vsac.org) for more details.

## FEDERAL EDUCATION LOANS: your best bet

If you need to borrow, this is the place to start. There are three kinds of federal education loans available for undergraduate education — two for students, one for parents.

### Student loans:

- **Perkins** loans of up to \$4,000 annually are available to students with exceptional financial need. *These loans, made through the college, offer the most favorable terms.*
- **Stafford** loans are available to almost all students. A student may borrow \$5,500 to \$7,500 annually, depending on his or her year in school. *(Independent students may borrow even more; see the chart to the right.)*  
*Stafford loans offer very favorable terms and are available through VSAC and other lenders. All students are eligible to apply, regardless of financial need.*

### Subsidized or not?

**Subsidized** Stafford loans, for students with greater financial need, accrue no interest while the student is in school, during the six-month grace period after graduation, and during deferment periods.

**Unsubsidized** Stafford loans, available for all students regardless of financial need, start accruing interest when the loan is disbursed.

## STAFFORD LOAN LIMITS

Colleges will determine your student's subsidized and unsubsidized loan amounts, up to the following limits:

ANNUAL	Dependent student	Independent student, or dependent student whose parent is denied a PLUS loan
<b>first year</b> <i>(up to \$3,500 of this amount may be in subsidized loans)</i>	<b>\$5,500</b>	<b>\$9,500</b>
<b>second year</b> <i>(up to \$4,500 of this amount may be in subsidized loans)</i>	<b>\$6,500</b>	<b>\$10,500</b>
<b>remaining years</b> <i>(up to \$5,500 of this amount may be in subsidized loans)</i>	<b>\$7,500</b>	<b>\$12,500</b>
<b>CUMULATIVE</b>		
	<b>\$31,000</b> for a dependent undergraduate	
	<b>\$57,500</b> for an independent student, or dependent student whose parent is denied a PLUS loan	

In all cases, students should take out Perkins (if offered) and Stafford loans *before* families look at other education loans.

### Parent loans:

- **PLUS** loans are available for parents, up to the full remaining cost of attendance. PLUS loans offer favorable terms and are available through VSAC and other lenders. There is a credit history review; if you have difficulty qualifying, call VSAC and we may be able to help. *All parents are eligible to apply, regardless of financial need.*

## PLUS LOAN LIMIT

Each year, the parent may borrow up to the college's cost of attendance minus the student's financial aid.

## PRIVATE LOANS: the financing option of last resort

Private student loans go by all sorts of names, depending upon the lender. Students use these loans to cover college costs that remain after they borrow federal Perkins and Stafford loans, in cases when a parent is not able to borrow a PLUS loan. The important thing to know is that **private loans do not have the same favorable terms as the federal Perkins, Stafford, and PLUS loans.** Each lender sets its own terms. *Private loans can be quite expensive and should always be your last choice.*

# The lowdown on federal loans

Here are some questions to ask when choosing a lender:

## What fees and interest rate will I be charged?

The federal government sets the maximum fees and interest rates on Stafford and PLUS loans. Fees include *origination* and *federal default fees* charged when you take out the loan. For the 2009–2010 academic year, Stafford loans have a 1.5% fee. Parent PLUS loans have a 4% fee. *Interest rates* for loans disbursed after July 1, 2009, will be 5.6% for the subsidized Stafford, 6.8% for the unsubsidized Stafford, and 8.5% for Parent PLUS loans made under the Federal Family Education Loan Program (FFELP) through education lenders such as VSAC. These rates are fixed for the life of the loan. *VSAC is committed to providing the lowest-cost education loans possible. Check out our current loan details at [www.vtac.org](http://www.vtac.org).*

## What can I expect for customer service?

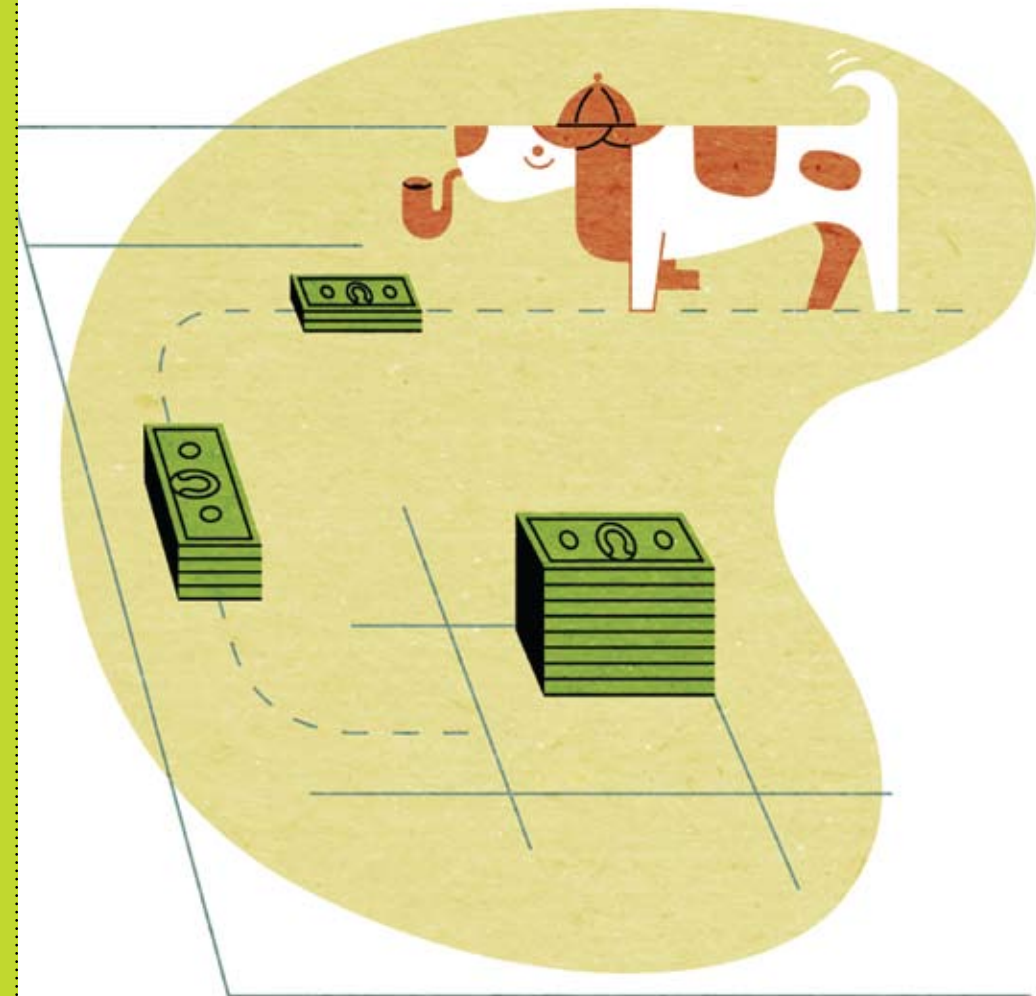
Taking out any loan is a serious, legally binding, long-term financial commitment. You want to choose a lender you can trust to work with you, help to make your life easier, and sort out any issues or problems quickly. An automated response line just isn't good enough. *VSAC's friendly, knowledgeable counselors are right here in Vermont — just a phone call away.*

## What if I am late on a payment?

Lenders can charge fees for late payment, which can add to your costs over the life of the loan. *Find out what lenders consider "on time" and whether a fee will be applied if you are late. VSAC doesn't charge a late fee.*

## What if I can't make a payment?

If you need to postpone payments for a while, you'll want a lender that takes the time to understand your circumstances. *VSAC understands and has options available to help — contact us right away if you anticipate a problem with payment.*



# Federal Parent PLUS vs. private student loans: compare and beware

Let's assume that your child has applied for grants and scholarships, and has maxed out Stafford borrowing. If you still need additional loans to finance the remaining college costs, the main choices are federal Parent PLUS loans or private student loans. VSAC strongly recommends going with the PLUS loan. Here's why:

## Interest rates

Parent PLUS loans have a *fixed* interest rate, so you know how much you're going to pay over the life of the loan. Private student loans normally have *variable* interest rates with *no maximum* on the rate. That could leave your child with a very large debt to pay once the interest is added in.

## Fees

Parent PLUS loans have a maximum fee of 4% charged when you take out the loan. Lenders offering private student loans can charge what they like, when they like, so your child could end up getting hit with fees all along the way. Ask for a clear explanation of all fees that will be charged.

## Flexible repayment

The Parent PLUS loan allows you to defer payment while your child is still in school and offers flexible payment options. While private loans in the student's name typically allow him or her to defer payment while in school, there is very little flexibility once repayment begins.

## Payment responsibility

Although a student takes out a private loan and owes the debt, he or she often needs a parent cosigner in order to qualify. That leaves the parent responsible as well — so the loan affects the parent's credit rating and may ultimately become the parent's debt to pay.

## Death/disability cancellation

In the case of Parent PLUS loans, the debt is cancelled completely if the student or parent borrower dies or the parent borrower becomes permanently disabled. Private loans seldom offer this benefit.

## Credit concerns?

Even if you think your credit history won't qualify you for a PLUS loan, VSAC recommends you apply anyway. Why? VSAC may be able to help resolve your credit issues. Also, your child may be eligible for an additional \$4,000 or \$5,000 in unsubsidized Stafford loans, depending on his or her year in school, if you are denied a Parent PLUS loan. If your child needs additional financing after that, our private **VSAC Advantage loan** might help. But exhaust the federal options first.

## Benefits of a federal Parent PLUS education loan

- The interest rate is fixed.
- Interest paid may be tax deductible.
- You can postpone payments while your child is in school.
- You have 10 to 25 years to repay the loan, and it may be repaid early without a penalty.
- It may be possible to reduce or defer payments during economic hardship.
- The loan is cancelled if the student or parent borrower dies or the parent borrower becomes permanently disabled.

When you make the comparison, there's no comparison. Parent PLUS loans are simply a much better option than private student loans.



## Private loans: read the fine print

The honest truth is that private loans should be *the financing option of last resort*, because they do not have the same favorable terms as Stafford and PLUS loans. Simply said, they will cost more. But, if your child has borrowed the maximum Stafford, and the Parent PLUS loan is not an option for your family, you may decide to look into private student loans. How do you decide which private loan is best? Get out a magnifying glass and hand it to your child. Here's what he or she should look for:

### Hidden costs

The more aware you are of what you're actually paying, the better. It's all in there by law, but rarely obvious. Private loans can have all sorts of fees, both when the loan is made and when repayment starts, and you may end up being charged higher fees than the ones you saw advertised. With some lenders, you won't get full disclosure until after you've applied, and by then it's too late. *Ask for a full fee schedule up front. Look for no or low origination fees.*

### Higher interest rates

If you see a great interest rate on a private loan, chances are it is only for people with excellent credit ratings, so few actually get it. Or, worse, you see no interest rates at all, just information on how easy it is to get the loan and how long you can postpone payments. Ask to see what *all* the possible interest rates are, and figure out where you fit in. *Never apply without knowing what you might pay and determining all possible interest rates.*

### Interest capitalization

This is a fancy way of saying you're paying interest on your interest. What happens is that unpaid interest is added to your loan balance, usually *after* a period of postponed payments. *Avoid a lender that capitalizes interest sooner.*

**As a nonprofit dedicated to helping families pay for college, VSAC is committed to providing you with all the information you need to know, up front.** If your child needs a private student loan, check out the VSAC Advantage loan. Look for all the details on our Web site, [www.vsac.org](http://www.vsac.org), or call and speak with a VSAC counselor at 800-798-8722. Be sure to ask questions, and get answers that make sense to you. If we can't explain it, no one can!



## Managing education debt

- You have the right to choose the lender you want for your child's education loans in order to get the best terms for your family's circumstances.
- When considering how much you will need to repay on your loan, remember to include the amount of interest that will add up while payments are postponed (for example, during the years your child is enrolled).
- Ideally, student loan payments should consume no more than 15% of a new graduate's starting income. Use the loan calculator at [www.vsac.org](http://www.vsac.org) to estimate the monthly loan payment.
- Save on loan costs by making extra payments; an additional \$25 a month will cut the term of your loan significantly and reduce the interest you pay.
- Everyone has times when bills seem overwhelming. VSAC can help you manage your education loan debt. Call 800-798-8722 to speak with a VSAC counselor.

# Education loan financing: a step-by-step process

VSAC is here to make your college funding process go smoothly. If you have questions or simply want to know more before you begin, just give us a call at 800-798-8722.

**Step 1.** Complete the **Free Application for Federal Student Aid (FAFSA)** online at [www.fafsa.ed.gov](http://www.fafsa.ed.gov) as soon as possible after January 1 of your student's graduating year (for example, after 1/1/09 for students graduating from high school in 2009). This is also the time to apply for a Vermont grant at [www.vsac.org](http://www.vsac.org).

**Tip:** To obtain student and parent PINs ahead of time (required for completing the FAFSA), go to [www.pin.ed.gov](http://www.pin.ed.gov).

**Step 2.** Fill out other financial forms that may be required, such as the CSS Profile (check each college's catalog or Web site for requirements). Apply for scholarships (check with your high school, colleges, and VSAC). Deadlines may vary by program and college. Know the deadlines and apply early!

**Step 3.** Compare financial aid awards. The amount your child and you as a parent end up borrowing will be different at each college. The financial aid award notice that the college sends will include the amount of loans that your child is eligible to borrow, and may or may not include an amount for a Parent PLUS loan. **You may apply for a Parent PLUS loan whether or not it is on the financial aid award.**

**Step 4.** Indicate on the financial aid award acceptance (or your college may have a separate form for this) which lender you want to use for Stafford and PLUS loans.

As Vermonters, you and your child can choose to borrow from VSAC, even if VSAC is not on the college's preferred lender list. To use VSAC for Stafford and Parent PLUS loans, enter **lender code 830075** and **guarantor code 750**.

**Step 5.** Apply for a Parent PLUS loan even if you think your credit history isn't very good. Doing so may qualify your child for an increased Stafford loan amount if you're denied (see the chart on page 2), or you may have options for resolving your credit issues. Check with VSAC for more details.

**Step 6.** Only at this stage, after all other options have been exhausted, should your child consider a private loan. Be sure to do some homework and consider how much it will cost to pay back the loan before signing on the dotted line.

## The FAFSA is used to determine eligibility for:

- federal Pell grants (do not have to be paid back; awarded to students with exceptional need)
- part-time and full-time grants administered by VSAC for Vermonters (submit the Vermont Grant Application, online at [www.vsac.org](http://www.vsac.org), after submitting the FAFSA)
- aid from colleges (colleges may require additional forms, such as the CSS Profile, available online at <http://profileonline.collegeboard.com>)
- federal Perkins loans (for students with exceptional need)
- federal subsidized and unsubsidized Stafford loans (student applies to the lender of his or her choice, such as VSAC, after the college determines how much he or she is eligible to borrow)
- federal Parent PLUS loans (you determine how much you want to borrow, up to the full cost of education minus the student's financial aid)

We're here to answer your questions — stop by, call a VSAC counselor at 800-798-8722, or visit [www.vsac.org](http://www.vsac.org).



## At VSAC, we're here to help

At the Vermont Student Assistance Corporation (VSAC), we have one mission: meeting the education goals of Vermont students and families. That's what we've been doing for more than 40 years, with a combination of clear information, personal service, and trust.

Heading to college? VSAC is here when you need us, providing assistance every step of the way. Stop by, call a counselor at 800-798-8722, or visit [www.vsac.org](http://www.vsac.org).



Your partner on the pathway to college.

LENDER CODE 830075

GUARANTOR CODE 750

### Here's the fine print:

VSAC is a public, nonprofit organization that is committed to helping Vermont students achieve their education goals by providing the lowest-cost loans possible and unparalleled customer service. Check out our loan details at [www.vsac.org](http://www.vsac.org). Projected federal loan fees, interest rates, borrowing limits, and repayment terms are current as of October 2008.



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