

Taking out a Student Loan



Determining whether you need to take out a student loan is a very important decision. A student loan can help you pay for required educational expenses and assist you in achieving your goal of being awarded an academic degree. Many college students rely on loans to help achieve their academic goals.



Should I Take Out a Student Loan?

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While student loans can be beneficial, a student should not take out a student loan without careful consideration. Before accepting a student loan, remember the following:

- The amount you borrowed for the student loan plus any interest that has accumulated must be repaid.
- Loan repayments begin after your grace period ends.
- The amount owed must be repaid regardless of whether you graduate.
- The Federal Government will collect the money owed to them and they have the authority to garnish wages and collect tax refunds.
- Student loans are rarely discharged in bankruptcy.
- Late payments will damage your credit score.
- Repaying student loans can delay achieving other financial goals.

Types of Loans

Federal Loans

- Direct Subsidized
- Direct Unsubsidized
- Perkins
- Direct Grad PLUS (for graduate students only)
- Direct PLUS (parent responsible for repayment)

State of Texas Loan

- Texas B-On-Time Loan

Alternative Loans

- The state of Texas and some banks offer alternative loan options.
- It is best to exhaust other options first.

Advantages of Federal Loans

- No credit checks
- Better interest rates than credit cards
- Helps establish credit history



Alternative loans

- May require co-signer
- Many have variable interest rates
- Virtually all are unsubsidized
- Fewer repayment options

Before taking out a student loan

- Establish a budget to determine amount of loan needed.
- Keep student loan amounts as low as possible.
- Federal loans are usually preferable to alternative loans.
- Keep track of the amount borrowed; NSLDS.ed.gov tracks federal loans.
- Have an idea of how much you will be earning after graduation (salary.com).
- Estimate the amount of future monthly payments at studentaid.ed.gov, click on Repay Your Loans and use the Repayment Estimator.
- Borrow money for needs not wants.
- Contact the Money Education Center if you have questions.

Student loan terms

Borrower – Person borrowing the money; signs promissory note agreeing to repay principal and interest.

Grace Period – Period of time after graduation, leaving school or dropping below half-time attendance that no loan payments are required.

Interest – Money owed in addition to the principal for use of the money.

Interest Rate – The % rate of the principal charged each year to the borrower.

Lender - Provides funds for loan.

Principal – The amount of money you borrowed plus any interest that has been capitalized.

Servicer - Collects loan payments for the lender.

Subsidized Loan – No interest charged to the student while enrolled at least half time.

Unsubsidized Loan – Interest is charged while student is in school. Students can choose to pay interest on unsubsidized loan while in school.

Standard 10-year Repayment at a 6.8% Interest rate

Loan Amount	Monthly Payment	Total Interest Paid	Cumulative Amount Repaid
\$10,000	\$115.08	\$3,809.66	\$13,809.66
\$30,000	\$345.24	\$11,428.97	\$41,428.97
\$50,000	\$575.40	\$19,048.28	\$69,048.28