

# Understanding Your Education Loan

## An Investment in Your Future

The decision to borrow money to help pay for college is an investment in your future. The more education you have, the better your job prospects and quality of life.

Loans can help you achieve your education goals. But an education loan is just that—a loan that must be paid back with interest. Be sure to look for scholarships and grants before you borrow. If you still need money for college, borrow responsibly and repay your education debt. Your college loans also can be a great way to establish good credit for your future financial transactions.

## What You Should Know

As the borrower, you are the one responsible for paying back your loan, plus interest. You must make loan payments regardless of how pleased you are with your school or education, whether or not you graduate, and even if you cannot find a job in your chosen field.

### Types of Loans

There are several distinct types of education loans available to help you pay for college. Each type—Federal Perkins, Federal Stafford or Federal PLUS Loans, and alternative or private loans—has its own set of terms and conditions. Those terms define what is expected of you and what you should expect from your lender. After you graduate, a Federal Consolidation Loan is another loan you may consider.

### Key Organizations

A number of organizations play a role in processing a student loan. First is your school, which certifies your eligibility for an education loan. The lender (the federal government, another lending institution or a bank or credit union) provides the funds. A guaranty agency insures federal loans and may deduct a fee from loan proceeds. If you become disabled or die, the guaranty agency will repay your lender.

Federal loans are available through two sources: the Federal Family Education Loan (FFEL) Program and the

William Ford Direct Loan (DL) Program. Your choice of lender is very important. Since most education loans have at least a 10-year repayment period, your relationship with a lender can last a long time. Compare loan types and terms carefully and look for a lender with a strong history of borrower benefits and excellent customer service.

### Important Documents

With every loan, there are a number of documents you should carefully read and save, including:

- **Master Promissory Note (MPN)** – The legal document of loan repayment terms for Stafford and PLUS Loans. It can be used for a single loan or for multiple loans covering one or more loan periods, provided your school participates in the multiple use option.
- **Promissory Note** – The legal document of loan repayment terms for a consolidation or a private or alternative loan. You sign this document when you apply for your loan.
- **Approval Disclosure** – The document you receive shortly after your loan is approved.
- **Repayment Disclosure** – The document that is sent to you shortly before your repayment period begins.

Disclosures provide all the details of your loan, such as disbursement dates, interest rates, fees, amounts owed, and repayment dates.

### Pay Interest While in School

For some student loans, you are responsible for paying the interest that accrues from the date of disbursement. If you want, you can capitalize the interest. Capitalization means adding the interest to the balance that accumulates while you are enrolled. When you begin to repay the loan, you will be responsible for the original amount borrowed (the principal) as well as the interest.

Capitalizing interest is more expensive in the long run; therefore, if possible, try to pay the interest while you are in school.

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Helping you plan, apply, and pay for college

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## Interest Subsidy

If you borrow a Perkins Loan or a subsidized Stafford Loan, the federal government subsidizes your loan, which means the government pays the interest on your loan while you are enrolled in school and until the end of your grace period.

## Grace Period

Your loan may have a grace period, the time between your leaving school and beginning repayment of your loan. Your promissory note and loan approval disclosure will specify the length of the grace period for your loan.

## What You Must Do

You must repay your education loan according to the terms of your promissory note, including:

- Beginning and making payments as scheduled
- Repaying the entire principal balance, plus interest
- Repaying the loan despite your graduation status or satisfaction with your education
- Notifying your lender/servicer if you feel you may be eligible for a deferment of payments

Before you borrow, consider how much you really need. Use the chart below and the Smart Borrower Calculator at [CFNC.org](http://CFNC.org) to consider the impact student loan payments may have on your future income.

Total Obligation	Monthly Payment Based on Approximate Interest Rate (standard 10-year repayment plan)					
	5%	6%	7%	8%	9%	10%
\$1,000	*	*	*	*	*	*
\$2,000	*	*	*	*	*	*
\$3,000	*	*	*	*	*	*
\$4,000	*	*	*	*	50.68	52.87
\$5,000	53.03	55.51	58.06	60.67	63.34	66.08
\$6,000	63.64	66.61	69.67	72.80	76.01	79.30
\$7,000	74.25	77.71	81.28	84.93	86.68	92.51
\$8,000	84.85	88.82	92.89	97.07	101.35	105.73
\$9,000	95.46	99.92	104.50	109.20	114.01	118.94
\$10,000	106.07	111.02	116.11	121.33	126.68	132.16
\$15,000	159.10	166.53	174.17	182.00	190.02	198.23
\$20,000	212.13	222.04	232.22	242.66	253.36	264.31
\$25,000	265.16	277.55	290.28	303.32	316.69	330.38
\$30,000	318.20	333.06	348.33	363.99	380.03	396.46
\$35,000	371.23	388.57	406.38	424.65	443.37	462.53
\$40,000	424.26	444.08	464.44	485.32	506.71	528.61
\$45,000	477.29	499.59	522.49	545.98	570.05	594.68
\$50,000	530.33	555.10	580.55	606.64	633.38	660.76

Average indebtedness for graduating college seniors varies by school type. Contact your school financial aid office for more information. When you graduate, your lender will likely provide your personal loan summary.

\* For Stafford Loans, monthly payments must be at least \$50 even if the total obligation is \$4,000 or less.

## Your Rights and Responsibilities

### You have the right to:

- Prepay all or part of your loan at any time, without penalty
- Consult the U.S. Department of Education's Student Loan Ombudsman in the event of a loan dispute

*U.S. Department of Education-FSA Ombudsman  
830 First Street, NE Fourth Floor  
Washington, D.C. 20202*

*By phone at 877-577-2575 or online at  
[www.ombudsman.ed.gov](http://www.ombudsman.ed.gov)*

- Review information about all your Title IV loans through the National Student Loan Data System at [www.nsls.ed.gov](http://www.nsls.ed.gov) or 1-800-4-FED-AID

### You must notify your lender/servicer if:

- Your name, address, telephone number, or Social Security number changes
- You are not enrolled at least half time for the loan period certified or are no longer at the school that certified your loan
- You withdraw from school
- You transfer to another school
- You graduate
- Your employer or your employer's address changes
- You incur any other change that would affect your loan status



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