FAQ's on Direct Lending

Q1: **Why is the University of Houston switching to direct loans?**
A: On Thursday March 30, 2010 President Obama signed the Health Care and Education Reconciliation Act of 2010 (H.R. 4872). This legislation will require all institutions to switch to Direct Lending. Therefore, effective summer 2010 UH will participate in the William D. Ford Direct Loan program.

Q2: **Does this change impact me?**
A: If you are a new or continuing student borrower who plans to borrow federal loans in summer 2010 and or the 2010-2010 aid year, this change will impact you. Beginning summer 2010, all Federal Stafford, Parent Plus, and Graduate Grad Plus loans will be processed through the Federal Direct Loan program. This requires you to sign a new Master Promissory Note (MPN) and complete entrance counseling with the Federal Government if you plan to borrow a loan for summer 2010. To avoid delays complete these requirements immediately. Please log onto the following and select Complete New MPN for student loans and Entrance Counseling for student loans: www.studentloans.gov.

Q3: **Who may borrow direct loans?**
A: Eligibility requirements for direct loans are the same as for FFELP loans. In general, undergraduate, graduate, and professional students may borrow direct loans. The parents of dependent undergraduates may borrow direct PLUS loans, as may graduate and professional students. As with FFELP and other forms of federal student aid, you may also need to meet certain specific federal eligibility requirements to qualify for direct loans.

Q3: **Will I have to undergo a credit check to borrow a direct loan?**
A: A credit check is not required for those students seeking Subsidized or Unsubsidized loans.
Borrowers of Graduate and Parent PLUS loans are subject to credit checks, and they may not borrow if they have an adverse credit history which is defined as:

- Being 90 or more days delinquent on any debt, or
- Having been the subject of a default determination,
- Bankruptcy discharge,
- Foreclosure, repossession, tax lien, wage garnishment, or
- Write-off on any federal student loan debt within 5 years of the date of the credit report.

Q4: **What does it cost to borrow direct loans?**
A: Three components drive the cost of borrowing Stafford and PLUS loans — interest rates, federal origination fees and federal default fees:

- Interest Rates. Interest rates on all Direct Loan Program are fixed for the life of the loan. For information on direct loan interest rates, go to the Federal Student Aid's interest rate web site at http://www2.ed.gov/offices/OSFAP/DirectLoan/calc.html

- Fees. The fees charged in the Direct loan program are generally the same as those under the FFELP. For specific information about fees, please see your Master Promissory Note.

Q5:: **Will I still be able to continue borrowing through the same lender as last year?**
A: No. All federal loans will be process through the Federal Direct Loan Program

Q6: **Are there any differences between the two programs?**
A: The interest rate for Direct Subsidized and Unsubsidized loans is the same as that of the FFELP program. However, the **Parent PLUS and Grad PLUS loan interest rate is 7.9%** compared to the FFELP program interest rate of 8.5%.

O7: **What happens to the Federal Stafford loans I borrowed in previous years? Will they still be deferred?**
A: Your Stafford loans from previous years should remain in deferment as long as you are enrolled at least half-time for your program. You are responsible for notifying your lender if your enrollment status changes.

Q8: **How will repayment work if I have FFELP and Direct loans?**
A: Many FFELP lenders have been selling their loan portfolios to the Department for Education for servicing during the past two years. You will have the option of making separate payments to each agency/ loan servicing company **OR** you can also opt to **consolidate all loans into one Federal Direct Consolidation Loan**

Q9: **Where can I find information about who services my other federal loans?**
A: You can find information about the servicers of your other federal loans at www.nslds.ed.gov. You will need your pin number from the FAFSA to access this site.

Q10: **How much may I borrow in a federal Stafford or PLUS loan?**
A: Annual and aggregate loan limits are the same under both FFELP and the Direct Loan Program. For Stafford loans, these limits are:

Federal Stafford Loan Limits				
	Annual Limit		**Aggregate Limit**	
	Total	**Subsidized Maximum**	**Total**	**Subsidized Maximum**
Dependent Undergraduates				
Freshmen	$5,500	$3,500	$31,000	$23,000
Sophomores	$6,500	$4,500		
Juniors and Seniors	$7,500	$5,500		
Independent Students				

Freshmen	$9,500	$3,500	$57,500	$23,000
Sophomores	$10,500	$4,500		
Juniors and Seniors	$12,500	$5,500		
Graduate and Professional Students	$20,500	$8,500	$138,500	$65,500

The maximum PLUS loan amount a student or parent may borrow is equal to the student's cost of attending UH minus other financial assistance (including Stafford loans borrowed by the student) that the student has been or will be awarded. The Office of Scholarships and Financial Aid Services (SFA) determine the amount of PLUS loan a student or parent may borrow.

Q11: **What are the repayment terms and conditions for direct loans?**

A: As is the case for FFELP loans, repayment must begin six months after the student for whom the loan was borrowed graduates, drops out, or otherwise stops being enrolled on at least a half-time basis. You make payments on a monthly basis for 10 to 30 years depending on which repayment plans you choose.

If you do not choose a repayment plan, you will be placed in a Standard Repayment Plan, with fixed monthly payments for up to 10 years. In the past, most borrowers stayed with Standard Repayment Plans, although other plans are available to them, including the new Income-Based Repayment (IBR) Plan. Under IBR, the amount you repay each month is one-twelfth of 15% of the difference between your Adjusted Gross Income and 150% of the Department of Health and Human Services Poverty Guidelines, adjusted for family size.

If you have trouble making payments, you may take advantage of several loan management options. These include:

Students and parents that have trouble making payments may take advantage of several loan management options. These include:

- Changing your repayment plans, which can provide you with more time to repay and lower your monthly payments. You may change repayment plans at any time;
- Deferments, which allow you to temporarily stop making payments on your loans if you return to college, who are unemployed, or who suffer economic hardship; and
- Forbearance, if you do not meet deferment eligibility requirements but need to temporarily stop making payments or make smaller payments.

Q12: **Does this affect my access to private (alternative) educational loans made by private lenders, or B-on-Time and College Access Loans made by the State of Texas?**

A: No. This change only affects federal Stafford and PLUS loans.

Q13: **What is the Public Service Loan Forgiveness Program?**

A: There is a new loan forgiveness program for public service employees. Under this program, the amount forgiven is the remaining outstanding balance of principal and accrued interest on an eligible Direct Loan for a borrower who is not in default and who makes 120 monthly payments on the loan after October 1, 2007. The borrower must be employed full-time in a public service job during the same period in which the qualifying payments are made and at the time that the cancellation is granted.

Q14: What are the four standard repayment options?

- **Standard Repayment**-With the standard plan, you'll pay a fixed amount each month until your loans are paid in full. Your monthly payments will be at least $50, and you'll have up to 10 years to repay your loans.

- **Extended Repayment**- To be eligible for the extended plan, you must have more than $30,000 in Direct Loan debt, but you have 25 years to repay it. Under the extended plan you have two options: for fixed or graduated payments. Fixed payments are the same amount each month you are in repayment, as with the standard plan, while graduated payments start low and increase every two years, as with the graduated plan below

- **Graduated Repayment**- With this plan your payments start out low and increase every two years. The length of your repayment period will be up to ten years. If you expect your income to increase steadily over time, this plan may be right for you. Your monthly payment will never be less than the amount of interest that accrues between payments. Although your monthly payment will gradually increase, no single payment under this plan will be more than three times greater than any other payment.

- **Income Contingent Repayment**- This plan gives you the flexibility to meet your Direct Loan payment obligation without causing undue financial hardship. Each year, your monthly payments will be calculated on the basis of your adjusted gross income (AGI, plus your spouse's income if you're married), family size, and the total amount of your Direct Loans. Under the ICR plan you will pay each month the lesser of:

  1. the amount you would pay if you repaid your loan in 12 years multiplied by an income percentage factor that varies with your annual income, or

  2. 20% of your monthly discretionary income.

  If your payments are not large enough to cover the interest that has accumulated on your loans, the unpaid amount will be capitalized once each year. However, capitalization will not exceed 10 percent of the original amount you owed when you entered repayment. Interest will continue to accumulate but will no longer be capitalized. The maximum repayment period is 25 years. If you haven't fully repaid your loans after 25 years (time spent in deferment or forbearance does not count) under this plan, the unpaid portion will be discharged. You may, however, have to pay taxes on the amount that is discharged.

Contact your lender directly to discuss your repayment options.

Q15: **What about the new Income-based Loan Repayment Program? (effective July 1, 2009)**

A: Under this plan the required monthly payment will be based on your income during any period when you have a partial financial hardship. Your monthly payment may be adjusted annually. The maximum repayment period under this plan may exceed 10 years. If you meet certain requirements over a specified period of time, you may qualify for cancellation of any outstanding balance of your loans.