

# **Federal Stafford Loan Program**

## **SUBSIDIZED FEDERAL STAFFORD LOANS**

Federal Stafford Loans are low-interest loans made to students attending school continuously at least half-time. These are long-term loans. They are insured by the State of California and are made by financial institutions upon referral by the SFASO. Students must first apply for Pell Grant and other grants or work program before consideration is given for a student to borrow. All students must:

- 1.** Complete a Stafford Loan Request Form.
- 2.** Pass a written entrance test to show that they understand their rights and responsibilities to this loan program.

Legislation requires a needs test for all Federal Stafford Loan Program (FSLP) applicants regardless of income level. Therefore, you must complete a Free Application for Federal Student Aid (FAFSA) form.

The annual loan limits are:

- A.** A student who has not yet successfully completed the first year of a program of study of undergraduate education as determined by the institution may borrow up to \$3,500 for a program of study of at least an academic year in length.
- B.** A student who has successfully completed the first year of a program of study of undergraduate education but who has not yet successfully completed the remainder of the program may borrow up to \$4,500 for a program of study of at least an academic year in length.

PLEASE NOTE: Students requesting a second-year loan amount MUST have successfully completed the first year of their program and be determined second-year by an academic counselor.

Stafford Loans have a fixed interest rate of 6.8 percent for loans with a first disbursement after July 1, 2006. (Previously, Stafford Loans had variable interest rates [based on 91-day T-bill rate plus 1.7 percent during school with an additional 0.6 percent increase upon graduation] capped at 8.25 percent or less, depending on yearly adjustments.) All lenders offer the same rate for the Stafford Loan, although some give discounts for on-time and electronic payment. You do not have to start repaying this loan until six months after you graduate or cease to be at least a half-time student at an eligible institution.

Stafford Loans have loan fees of 4 percent, which are deducted from the disbursement check. These fees consist of a 3 percent origination fee and a 1 percent default fee (previously “guarantee

18 fee”). The default fee is mandatory. (Previously, guarantee agencies could waive the fee, and many did.) The origination fee will drop from 3 percent to 2 percent on July 1, 2006, and will drop by a further 0.5 percent each successive July 1, until it is phased out entirely on July 1, 2010.

Repayment begins six months after the student graduates or drops below half-time enrollment. The standard repayment term is 10 years, although one can get access to alternate repayment terms (extended, graduated and income contingent repayment) by consolidating the loans.

Like the Federal Perkins NDSL, portions of an FSLP may be cancelled or payment deferred if you meet certain criteria specified by law. Details are discussed at an entrance and exit interview which every loan holder must attend before getting the loan or leaving Saddleback College.

To arrange repayment, the borrower contacts the lender or servicer immediately

upon leaving or graduating from school. It is the borrower's responsibility to maintain contact with the lender and to establish a REPAYMENT SCHEDULE. Borrower's failure to keep the lender informed of changes in enrollment status, anticipated graduation date, address, school, deferment eligibility or name will result in the default of a student loan.

Repayment Schedule and Disclosure – A statement sent to the borrower providing the terms of loan repayment including total principal and interest due, interest rate(s), an installment amount, number of installments required to pay the loan in full, and the due date.

### **UNSUBSIDIZED FEDERAL STAFFORD LOANS FOR MIDDLE-INCOME INDEPENDENT STUDENT BORROWERS**

The unsubsidized Federal Stafford Loans are for middle-income independent student borrowers who do not qualify for federal interest subsidies under the Federal Stafford Loan program.

Any student meeting the requirements for eligibility is entitled to borrow an unsubsidized Federal Stafford Loan. The terms and conditions of loans made under the subsidized Federal Stafford Loan program apply to unsubsidized Federal Stafford Loans. The combination of subsidized and unsubsidized Federal Stafford Loans for a borrower may not exceed the annual and aggregate limits for loans under the Federal Stafford Loan program.

A borrower's unsubsidized Federal Stafford Loan amount is determined by calculating the difference between the borrower's cost of attendance for the period of enrollment for which the loan is intended and the amount of estimated financial assistance, including the amount of subsidized Federal Stafford Loan for which the borrower qualifies, for the period of enrollment.

A subsidized and an unsubsidized Federal Stafford Loan borrower is required to pay a combined origination fee and insurance premium of up to 4 percent on the principal amount of the loan. The cost will be deducted proportionately from each disbursement of the loan.

Information notice for Federal Stafford Loan Applicants:

Federal law requires that you be made aware of the availability of State grant and scholarship assistance before you apply for the

Federal Stafford Loan. California State grant and scholarship information and other state information on grants and scholarships may be obtained from the Student Financial Assistance & Scholarship Office (SFASO), Student Services Center, SSC-106, Saddleback College, or the California Student Aid Commission Educational Loan Program Office (SSLP), P.O. Box 419026, Rancho Cordova, CA 95741-9026.