

# Federal Loans

## FEDERAL FINANCIAL AID PROGRAMS

### “Paying for College in Michigan” Handbook

[www.michigan.gov/mistudentaid](http://www.michigan.gov/mistudentaid)

#### Federal Loans

Loans are “borrowed” money that must be repaid with interest. Students are encouraged to think carefully about the amount borrowed. Loans must be repaid with interest. It can take many years to repay the loan.

- **Federal Perkins Loans**

Federal Perkins loans are made through participating colleges and universities to students who are undergraduate, graduate, or professional students. Students must demonstrate financial need (Federal Pell Grant recipients get top priority). An **undergraduate** student may borrow a maximum of \$4,000 per academic year and a maximum of \$20,000 as an undergraduate. A **graduate** or professional student may borrow up to \$6,000 per academic year and a maximum of \$40,000 including undergraduate loans. The interest rate is five percent.

- **Federal Stafford and PLUS Loans**

Federal Stafford and PLUS loans are made through one of two U.S. Department of Education programs:

- **Federal Direct Loan Program** – Referred to as Direct Stafford loans, Direct PLUS loans, or Direct loans. Eligible students and parents borrow directly from the U.S. Department of Education at participating schools. Students repay these loans directly to the federal government.
- **Federal Family Education Loan (FFEL) Program** – Referred to as FFEL Stafford loans, Federal Stafford loans, FFEL PLUS loans, or Federal PLUS loans. Private lenders provide funds that are guaranteed by the federal government. Students repay these loans to the bank or private lender that made the loan.

Whether the student (or the parent) receives a Direct or FFEL loan depends on which program the attended college or university participates in. Most schools participate in one program or the other, although some schools participate in both. It is possible for the student to receive Direct and FFEL loans but not both types for the same period of enrollment.

- **Subsidized Federal Stafford Loan** – This loan is for undergraduate or graduate students who demonstrate need. The federal government pays the interest on the loan until the borrower begins repayment and during deferment periods. The interest rate is fixed at 6.8 percent. Currently the maximum amounts are: \$2,625 for the first year, \$3,500 for the second year, and \$5,500 for the third and fourth years of college. The total aggregate amount an undergraduate student may borrow is \$23,000.



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- **Unsubsidized Federal Stafford Loan** – This loan is non-need-based and is available for undergraduate or graduate students. The maximum amount borrowed per year is the same for an undergraduate subsidized loan; however, students may be able to borrow loan funds beyond their subsidized loan limit. Interest is charged from the time the loan is disbursed until it is paid in full. The student is responsible for interest (6.8 percent) payments while in school and during repayment.
- **Federal PLUS Loan** – Parents with good credit history may borrow this loan on behalf of their dependent student to assist in paying for educational expenses. Parents may borrow an amount not to exceed the difference between the cost of attendance minus any other financial aid the student receives. The interest rate is a fixed rate of 8.5 percent for FFEL PLUS loans and 7.9 percent for Direct PLUS loans.
- **Federal Grad PLUS Loan** – The Federal PLUS loan, which was previously only for parents of undergraduate students, is now available to graduate and professional students. This new program is called the Federal Grad PLUS Loan Program. Students with good credit history may borrow up to the cost of attendance minus any other financial aid received. The interest rate is a fixed rate of 8.5 percent for FFEL Grad PLUS loans and 7.9 percent for Direct Grad PLUS loans.