



WHAT YOU SHOULD KNOW ABOUT FEDERAL STUDENT LOANS

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Many students take out loans to help pay for college. Federal student loans are loans provided by the U.S. government to help cover the costs of higher education at a college or career school. Learn more about how federal loans can help you pay for college.

Federal student loans usually have better terms than loans from banks or other private sources. Here is information about federal loan terms, plans, and interest rates for loans disbursed between **July 1, 2024 and June 30, 2025**.

WHY CONSIDER A FEDERAL STUDENT LOAN?

College loans provided by the U.S. Department of Education's federal student loan program, known as the [William D. Ford Federal Direct Loan Program](#) have a few advantages over private loans from banks and other lenders.

- 1. Federal student loans generally have lower interest rates and fees and more flexible repayment terms** than private loans. For example, students can postpone payments if they experience financial hardship (this is called deferment or forbearance). Federal loans also offer a wide range of repayment plans, including graduated and extended repayment; and income-driven repayment (IDR) options if your loan balance is high relative to your income. These plans are explained below.
- 2. Students do not need to begin making loan payments until six months after they graduate** (this is called the "grace period") or drop below half-time enrollment. For certain federal student loans (such as Direct Unsubsidized Loans described below), interest starts accruing immediately after disbursement, even while you're still in school. Other federal student loans (specifically, Direct Subsidized Loans) do not accrue interest while you're in school or during grace periods.
- 3. Federal loans for undergraduates do not require a credit check.** Most private loans require a credit check. Since many students might not have a [credit history](#), loans requiring a credit check may require a co-signor or guarantor. Federal Direct PLUS Loans, which are available to parents and graduate students, do require a credit check, but your credit score won't affect your rate.
- 4. Students who demonstrate financial need may qualify for interest subsidies.** Students who demonstrate financial need may qualify for a Direct Subsidized Loan. The advantage of such a loan is that the government covers or subsidizes the interest that accrues on the loan while you're in school. These loans are explained below.

WHAT TYPES OF FEDERAL STUDENT LOANS ARE AVAILABLE?

The U.S. Department of Education offers the following four types of Direct Loans.

- **Direct Subsidized Loans** are available to eligible undergraduate students who demonstrate financial need. The interest that accrues on this type of loan while you're in school is subsidized (paid by) the government, and then you're responsible for it six months after you drop below half-time status or graduate.
- **Direct Unsubsidized Loans** are available to undergraduate, graduate, and professional students without regard to financial need. You are responsible for paying interest on this type of loan during all repayment periods even while you're in school. You may apply for a deferment to temporarily pause payments while you're in school and for six months after graduating or dropping below half-time enrollment. However, interest continues to accrue during the deferment period and is added to the principal loan amount.
- **Direct PLUS Loans** are available to graduate and professional students and parents of dependent undergraduate students to help pay for education expenses not covered by other financial aid. Eligibility is not based on financial need, but, unlike Direct Subsidized and Unsubsidized Loans, a credit check is required. Even if you have an adverse credit history, you may still be able to qualify for a Plus Loan if you get an endorser and complete PLUS Credit Counseling.
- **Direct Consolidation Loans** allow students to combine all their eligible federal student loans into a single loan with a single loan servicer.

HOW MUCH CAN I BORROW?

There are limits on the amount of Direct Subsidized and Unsubsidized Loans that you may receive each academic year (annual loan limits) as well as limits on the total amount you may receive for undergraduate and graduate study (aggregate loan limits).

The amount you can borrow may vary depending on what year you are in school and whether you are a dependent or [independent student](#). For example, dependent undergraduate students can borrow up to \$3,500 in Direct Subsidized Loans and \$2,000 in Direct Unsubsidized Loans during their freshman year of college, for an annual limit of \$5,500. Independent students can borrow up to \$3,500 in Direct Subsidized Loans and \$6,000 in Direct Unsubsidized Loans for an annual limit of \$9,500. These limits are increased during sophomore, junior and senior years of college.

Parents and graduate students who are eligible for Direct PLUS Loans can borrow an amount up to the [cost of attendance](#) at the school the student attends minus any other financial aid the student receives.

If you are a dependent student whose parents are ineligible for a Direct PLUS Loan, you may be able to borrow more than the limit on Direct Unsubsidized Loans. Check with your college's financial aid office for more information.

WHAT ARE THE INTEREST RATES ON FEDERAL STUDENT LOANS?

The interest rate on federal student loans is established annually and varies depending on the type of loan. Federal student loans are also subject to fees, which are deducted from the amount of your loan. Below are the interest rates and fees for Direct Subsidized Loans, Direct Unsubsidized Loans, and Direct PLUS Loans first disbursed on or after **July 1, 2024**, and before **July 1, 2025**.

FEDERAL DIRECT LOANS

Eligibility: Undergraduate and graduate students with or without financial need.

Annual Loan Limits: Dependent undergraduates: \$5,500 first year, \$6,500 second year, \$7,500 third year and beyond; limits for independent and graduate students are higher.

Interest Rate for Direct Subsidized Loans and Direct Unsubsidized Loans for Undergraduate Students: 6.53%

Interest Rate for Direct Unsubsidized Loans for Graduate and Professional Students: 8.08%

Fees: 1.057%*

*The fee on Direct Subsidized Loans and Direct Unsubsidized Loans is a percentage of the loan amount and is proportionately deducted from each loan disbursement.

PLUS LOAN

Eligibility: Parents of dependent undergraduate students with or without financial need; graduate and professional students with or without financial need.

Annual Loan Limits: Up to the total cost of college for the year, minus any financial aid already received.

Interest Rates for Direct PLUS Loans: 9.08%

Fees: 4.228%

HOW DO YOU QUALIFY FOR A FEDERAL STUDENT LOAN?

To apply for a federal student loan, you must submit a completed [FAFSA \(Free Application for Federal Student Aid\)](#) between October 1 and June 30. For a Direct PLUS Loan, you will also be required to complete the Direct PLUS Loan Application and sign a promissory note. Many states and colleges set priority deadlines by which you must submit the FAFSA form to be considered for the aid programs they administer. Additionally, because some states and schools have limited funds, you should try and submit your completed FAFSA **as soon as you can on or after October 1** to have the best chance to qualify for a federal student loan.

To qualify for a federal student loan, you must meet the following general eligibility requirements:

- Demonstrate financial need (for most programs)
- Be a U.S. citizen or eligible non-citizen
- Show you are qualified to obtain a college or career education by having a high school diploma or recognized equivalent, such as a General Education Development (GED) certificate, completing a high school education in a homeschool setting approved under state law, or enrolling in an eligible career pathway program
- Have a valid Social Security number (with the exception of students from the Republic of the Marshall Islands, Federated States of Micronesia, or the Republic of Palau)
- Be enrolled or accepted for enrollment as a regular student in an eligible degree or certification program
- Be enrolled at least half-time to be eligible for Direct Loan Program funds
- Maintain satisfactory academic progress in college or career school

ADDITIONAL PLUS LOAN REQUIREMENTS

To qualify for a parent PLUS loan, the borrower must be the biological or adoptive parent of a dependent undergraduate student enrolled at least half-time at an eligible school; not have an adverse credit history (unless certain additional requirements are met); and meet the general eligibility requirements for federal student aid.

To qualify for a grad PLUS loan, the borrower must be a graduate or professional student enrolled at least half-time at an eligible school in a program leading to a graduate or professional degree or certificate; not have an adverse credit history (unless certain additional eligibility requirements are met); and meet the general eligibility requirements for federal student aid.

REPAYMENT PLANS ARE FLEXIBLE

The federal government offers several loan repayment options. Borrowers are assigned a payment plan when they first begin repaying their loans, but they can change the plan at any time, free of charge.

- **The standard plan** features fixed monthly payments made over 10 years.
- **The graduated plan** has a repayment period of 10 years, like the standard plan, but starts out with lower payments that increase every two years.
- **The extended plan** sets up either a fixed or graduated payment over a period of 25 years and applies only to loan amounts above \$30,000.
- **Income-driven (IDR) plans** base your monthly payments on your income and family size, as determined by the government. For some borrowers, payments on an IDR plan can be as low as \$0. The repayment period for these plans is 20 or 25 years. At the end of the term, any remaining loan balance will be forgiven. There are four different income-driven plans, each with different qualifications.
- **The Saving on a Valuable Education (SAVE)** plan is the newest IDR plan available for all Direct Loans. With the SAVE plan, monthly payments are 5% to 10% of your discretionary income. If you are a single person making \$32,800 or less per year, your monthly payment may be as low as \$0. Some students will also receive an interest subsidy to prevent their loan amounts from ballooning due to unpaid interest.

For more information on SAVE and other repayment plans, see the [Federal Student Aid](#) website. The website also features a free [Loan Simulator](#) to help you review different repayment plans and select the best one for your situation.

FINANCIAL HELP BEYOND STUDENT LOANS

If federal student loans do not cover all of your college expenses, there are other financial aid options offered by the federal government, such as grants (which is financial aid that doesn't have to be repaid unless, for example, you withdraw from school), work-study (which is a work program through which you earn money to help pay for school), and various [other financial aid](#) and [loan repayment programs](#) as well as [tax breaks for education](#).

With few exceptions, not repaying a student loan will lead to garnishment of wages and income tax refunds, and a negative impact on your credit history. It's important to think carefully about your future educational and career goals before taking out a student loan and understand how student debt can impact your financial future.

Portions of this article were excerpted from the US Department of Education's [Federal Student Aid website](#).