



TIP SHEET FOR YOUNG PEOPLE

PART I: UNDERSTANDING STUDENT LOANS – THE BASICS

For most youth and young adults, student loans are a necessary part of college, even when a financial aid package includes scholarships. In choosing loans and loan amounts, there are many options and factors to consider that can have significant long-term impacts. This tip sheet provides some important information to keep in mind as you prepare to pay for college.

Before I take out a loan, have I considered whether there are scholarships, special state programs, or grants available?

Some states make financing college easier for students who are homeless or were in foster care by providing tuition and fee waivers, in-state tuition, and priority housing. You can find a list of these [states](#) and their relevant laws [here](#). Additionally, there are multiple [scholarship opportunities](#) available to individuals who experience homelessness, including SchoolHouse Connection's [Youth Leadership and Scholarship Program](#).

What are loans?

Loans are typically money given by an individual, agency, or other institution that the borrower must pay back. Loans usually consist of the original value amount (the “principal”) plus additional charges (the “interest”) that the borrower pays the lender until the original value is paid back. The interest is expressed as an annual percentage of the principal (for instance, 5%), and is charged and accumulates (“accrues”) until the loan is repaid.

What are the different kinds of loans?

There are several types and subcategories of loans, varying by provider, interest rate, and the terms of repayment.

- **Federal Loans:** The U.S. Department of Education is the largest provider of student loans. These public loans are also called federal student loans. As of February 2019, they have interest rates that range from 5.05% to 7.6%, depending on the loan and your status as a student. These rates change yearly, sometimes going up and sometimes down, depending on the rates of 10-Year Treasury notes. There are two types of federal student loans: subsidized and unsubsidized.
- **Subsidized loans:** The federal government pays interest while you are in school, as long as you're enrolled at least half-time. There is a six-month grace period after you leave school or end “deferment” (when you have temporarily postponed loan payments). However, if you are in “forbearance” (unable to make loan payments due to financial hardships), subsidized loans do accrue interest. Only undergraduate students are eligible for subsidized loans, and the amount is determined by financial need.
- **Unsubsidized loans:** As soon as the loan is taken out, you are immediately responsible for paying interest payments. If you don't pay the interest payments while you're in school, they get added onto the principal amount and you will end up owing more money. During deferment and forbearance,



unsubsidized loans accrue interest and borrowers are responsible for paying all of the interest accrued. Borrowers can be undergraduate or graduate students.

- **Private Loans:** You can apply for a private student loan by filling out an application with a bank or other private lender. They will determine how much they can offer and at what interest rate, based upon your credit score. If you don't have a credit history, the lender may require a co-signer, who will be responsible for the debt if you don't pay. The interest rate for private loans can be fixed or variable: fixed rates won't ever change, whereas variable rates may change over the life of the loan. You can start repaying the loan while in school or afterwards. Interest rates for private loans tend to be higher than for federal student loans. However, private loans can be helpful if you do not receive enough federal financial aid.

The most important grants available for higher education are the Federal Pell Grants.

They are awarded to undergraduate students who are eligible for federal student aid programs and who have filled out the **Free Application for Federal Student Aid (FAFSA)**. The general eligibility requirements include financial need, being a U.S. citizen or eligible non-citizen, and enrollment (full- or part-time) in an eligible degree or certification program at a college or career school. The amounts awarded can change yearly and depend on:

- A student's financial need (calculated as the difference between the cost of attendance at a school and the student's expected family contribution);
- Cost of attendance;
- Status as a full-time or part-time student; and
- Plans to attend school for a full academic year or less.

A Federal Pell Grant does **not** have to be repaid, except under certain circumstances. A student can receive the Federal Pell Grant for no more than 12 semesters—roughly six years.

Questions to consider when choosing loans:

- How much money do I actually need, considering all living expenses?
- Are there any scholarship opportunities that I can apply for?
- How many hours can I reasonably work and still keep up my grades?
- Will I be able to pay interest while I am a student if I choose an unsubsidized loan?
- If I get a private loan, would I need a co-signer? If so, who would be my co-signer?
- What are the interest rates?

How do I apply for loans?

To apply for federal loans, students must fill out the **FAFSA**, which determines how much you are eligible to receive. The FAFSA is available online or in paper form starting on October 1st of the year before the loan will be issued. Students must fill out the FAFSA form *every year that they are in school* in order to stay eligible for federal student aid. Many states and colleges have specific deadlines for applying for financial aid. A complete list of deadlines is available [here](#). Students can also check with their institution's financial



aid office about their specific deadline. Completing the application before the deadline ensures full access to grants and scholarships.

****For unaccompanied homeless youth****

If you are an unaccompanied homeless youth, you do not need to include your parental income or signature on the FAFSA. You will need [a determination](#) that you were unaccompanied and experiencing homelessness in the year prior to applying. If you are in high school, your school district is required to help you obtain verification. You also can get verification from certain homeless services providers, or from your financial aid administrator.

What do I do if I have problems filling out the FAFSA or interpreting my award?

Each college or university has a financial aid office. Some handle phone calls and emails well, but for others, it is better to walk in for a face-to-face meeting. In either case:

- **Write down the name of the person you spoke with.** This is especially important when you find someone who is helpful and responsive, since you may want to maintain that contact.
- **Be prepared for a wait,** whether you are on the phone or walking into the office. This is especially true at the start of a fall semester. Don't try to squeeze in a call or an in-person visit in a tight time frame.
- **It's okay to slow down and take your time.** Make sure your questions are answered before you hang up or leave. Financial aid can be complicated, and it's good to be thorough and ask lots of questions!

To view the complete series of tip sheets informed by, and designed for, young people, click [here](#).