Federal Direct Loan FAQs

Why did AIMC Berkeley move to the Direct Loan Program?

President Obama recently enacted student loan reform in the Health Care and Education Affordability Reconciliation Act of 2010 (H.R. 4872), requiring all schools to participate in the William D. Ford Federal Direct Loan Program beginning on July 2, 2010. The Family Federal Education Loan Program, which permitted private lenders to originate these loans, is eliminated effective June 30, 2010.

How will this affect my prior student aid year federal loans?

This change will NOT affect any prior federal loans that had a first disbursement prior to 7/1/10. Do pay attention to your mail as the Department of Education has been buying up many of your existing loans that were originally with a private lender.

Does this change impact me?

If you are a new or continuing student borrower who plans to borrow federal loans, this change will impact you. As of 6/9/10 all future Federal Stafford and Grad PLUS loans will be processed through the Direct Loan program. You will be borrowing directly from the government versus a private lender.

Will there be any additional requirements for me to receive my aid from Direct Loans? Will I need to sign a new mater promissory note?

The application process for Direct Loans is the same as previous years. New students must complete our Application for Financial Aid (AFA) as well as the FAFSA.

In addition, all students, even returning student borrowers, will need to complete a new Direct Loan Master Promissory Note. Students may go to: www.studentloans.gov and Sign In under Mange My Student Loans. If you are borrowing from BOTH the Stafford and Grad PLUS programs, you will need to complete a separate MPN for each loan program.

What are the benefits in the Direct Loan program?

- A guaranteed source of funding for students loans
- A lower interest rate on Graduate Plus loans (8.5 % to 7.9%)
- A single point of service for students during repayment
- Additional repayment options for students and interest rate reductions for on time payments
- The Public Service Loan Forgiveness Program

Are there any differences in interest rates and fees between the two programs?

The interest rate for Direct Subsidized and Unsubsidized loans is the same as that of the FFEL program – 6.8%. However, the Direct Grad PLUS loan interest rate is 7.9% compared to the FFEL program which is 8.5%.

Direct Loans also offers an upfront interest rebate of 0.5% on Subsidized/Unsubsidized and 1.5% on the Graduate PLUS.

What happens to the Stafford loans I borrowed in previous years? Will they still be deferred now that AIMC Berkeley is changing its loan process?

Your Stafford loans from previous years will remain in deferment as long as you are enrolled at least half time. You are responsible for notifying your lender if your enrollment status changes.

How will repayment work if I have FFEL and Direct loans?
You will have to make separate payments to each lender/servicer. You can also opt to consolidate with the Direct Loan program if you would like to make only one monthly payment. It is also possible that if your former lender sold your loans to the Department of Education that the same company may be servicing your student loans from both programs. The current servicer of your student loan(s) can be reviewed at www.nslds.ed.gov. You will need your pin number from the FAFSA to access this information.

How can I find out more information about loan consolidation?
Students can go to: http://loanconsolidation.ed.gov/borrower/bbenefit.html for detailed information on the pros and cons of loan consolidation.

What is Public Loan Forgiveness?
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. Students can go to http://studentaid.ed.gov/PORTALSWebApp/students/english/PSF.jsp for more detailed information about Public Loan Forgiveness.

What are the four standard repayment options?
Standard Repayment: With the standard plan, you will pay a fixed amount each month until your loans are paid in full. Your monthly payments will be at least $50 and you will 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 obligations 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.

What about the new Income-based Repayment Program?

Income-based Repayment (effective July 1, 2009) – 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. Detailed information and calculators are available at: http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRPlan.jsp

How can I get more information?

The Department of Education has launched a new website that will serve as a portal for Direct Loan borrowers to manage their Direct Loans and obtain informative material on their student loans. The new web site iswww.studentloans.gov and can be used to complete loan entrance counseling, master promissory notes, view electronic loan correspondence and access to other links related to student loans.

You may also contact the financial aid office with any questions or concerns. The college is Direct Loan ready and your funds will continue to be disbursed to you in a timely manner.