Should I Take Out a Student Loan?

Determining whether you need to take out a student loan is a very important decision. A student loan can help you pay for required educational expenses. Students should not take out a student loan without careful consideration.

Before accepting a student loan, remember the following:

- The amount you borrowed for the student loan plus any interest that has accumulated must be repaid.
- Loan repayments begin after your grace period ends.
- The amount owed must be repaid regardless of whether you graduate.
- The Federal Government will collect the money owed to them and they have the authority to garnish wages and collect tax refunds.
- Student loans are rarely discharged in bankruptcy.
- Late payments will damage your credit score.
- Federal loans are usually preferable to alternative loans.

Before taking out a student loan

- Establish a budget to determine amount of loan needed.
- Keep student loan amounts as low as possible.
- Keep track of the amount borrowed; NSLDS.ed.gov tracks federal loans.
- Have an idea of how much you will be earning after graduation (salary.com).
- Estimate the amount of future monthly payments at studentaid.ed.gov, click on “Repay Your Loans” and use the Repayment Estimator.
- Borrow money for needs not wants.
- Contact Money Management if you have questions.
### Student Loan Terms

- **Borrower** - Person borrowing the money; signs promissory note agreeing to repay principal and interest.
- **Grace Period** - Period of time after graduation, leaving school or dropping below half-time attendance that no loan payments are required.
- **Interest** - Money owed in addition to the principal for use of the money.
- **Interest Rate** - The percentage rate of the principal charged each year to the borrower.
- **Lender** - Provides funds for loan.
- **Principal** - The amount of money you borrowed plus any interest that has been capitalized.
- **Servicer** - Collects loan payments for the lender.
- **Subsidized Loan** - No interest charged to the student while enrolled at least half time.
- **Unsubsidized Loan** - Interest is charged while student is in school. Students can choose to pay interest on unsubsidized loan while in school.

### Types of Loans

#### Federal Loans*
- Direct Subsidized
- Direct Unsubsidized
- Direct Grad PLUS (for graduate students only)
- Direct PLUS (parent responsible for repayment)

#### Alternative Loans
- The state of Texas and some banks offer alternative loan options.
- It is best to exhaust other options first
- May require co-signer
- Many have variable interest rates
- Virtually all are unsubsidized
- Fewer repayment options

*Advantages of Federal Loans
- No credit checks
- Better interest rates than credit cards
- Helps establish credit history

### Standard 10-year Repayment at a 6.8% Interest rate

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<tr>
<th>Loan Amount</th>
<th>Monthly Payment</th>
<th>Total Interest Paid</th>
<th>Cumulative Amt Repaid</th>
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</tbody>
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Money Management

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