

Selecting a Lender for your Federal Stafford Loan

For Stafford, PLUS and Graduate PLUS loans, students are able to choose a lender that best suits their needs. For the Federal Stafford Loan, a student may choose a lender by indicating the lender information on the back of the award letter. A list of commonly used lenders is included in the award letter information booklet that accompanies your original award letter each year.

While all federal loans of a given type have common interest rates set by the federal government, some lenders may have more favorable origination or repayment terms than others.

For 2006-07 and beyond, interest rates are set at the following rates:

Federal Stafford (subsidized and unsubsidized):	6.8%
Federal PLUS and Federal Graduate PLUS:	8.5%

(Note: Loans borrowed prior to July 1, 2006 and after November 1998 have a variable interest rate with an 8.25% cap. Those loans will continue to have their interest rate adjusted annually.)

Lenders are required to pay a fee for each loan that they disburse. This origination fee may be passed on to the student at a rate of up to 3%. Guarantors (those that insure the loans in case a student qualifies for cancellation or dismissal of a loan, or defaults) may also charge a fee of up to 1%. On the Federal PLUS and Graduate PLUS loans, lenders must charge a 3% origination fee. A few lenders may refund this fee at repayment.

For Stafford loans, it is generally advisable to the student to borrow from a lender/guarantor combination that does not charge an origination or guarantee fee, as the origination fee reduces the amount the student receives from the lender (although the student is responsible for repayment of the whole loan, including the fees).

After a student determines the lender with the lowest fees, it is wise for the student to examine the repayment incentives the lender has available. Depending upon the amount the student plans to borrow over the course of his/her studies and the number of years over which the student plans to repay the loan, some repayment incentive plans may be more cost-saving than others. However, as repayment plans may change between the time the student borrows the loan and the time the student goes into repayment, loan repayment incentives are less important than no or low origination fees.

Repayment incentives generally come in two types: interest rate reductions or principal reductions. Some lender/guarantor combinations will offer a combination of these. The most common reduction is a .25% interest rate reduction for students who arrange for their loans to be repaid on a monthly basis directly from their checking or savings account. Others include interest rate or principal reductions for students who make on time payments for an initial period of time, usually 36-48 months. Finally, there may be reductions at the end of the repayment period for students who make all their monthly payments on time.

Students should be aware that principal or interest rate reductions will not lower their monthly payments; instead, it will shorten the period over which the repayments are made. A chart containing information on these repayment incentives (current as of July 2006) appears on the reverse. Note that lenders participating in the Michigan First program eliminate all future interest on Federal Stafford, PLUS and Graduate PLUS loans if the first 36 monthly payments are made on time. This can result in significant savings for students who plan to repay their loans over a longer rather than shorter period of time. As each student's needs are different, information on different lenders' specific repayment programs is provided on the chart.