

Federal student loans, explained

Moderate · 15 min to read · Free

YOU'LL NEED

- ☐ Your aid offer ☐ Your StudentAid.gov login

WHAT TO KNOW

- 1 **Apply with the FAFSA.** Your school uses it to decide what you can borrow, and loans are usually part of your aid offer.
- 2 **Know the two kinds.** Direct Subsidized Loans are for undergraduates with financial need. The government pays the interest while you're in school at least half-time, for the six-month grace period after you leave, and during deferment. Direct Unsubsidized Loans don't require need, and you pay all the interest, in every period. If you're offered both, the subsidized one is the better deal.
- 3 **Know the rate.** Undergraduate Direct Loans first paid out from July 1, 2026, through June 30, 2027, have a fixed rate of 6.52% for the life of the loan. For graduate students, unsubsidized loans are 8.07%, and PLUS loans for parents and grad students are 9.07%. Rates are set by federal law, not by your school.
- 4 **Know the fee.** Direct Subsidized and Unsubsidized Loans first paid out before Oct. 1, 2027, carry a 1.057% fee (4.228% for PLUS loans). The fee comes out of the money before you get it, but you repay the full amount you borrowed.
- 5 **Borrow only what you need.** Your school decides the amount, which can be less than the annual limit. Before the money is paid out, you can cancel all or part of a loan by telling your school.
- 6 **Before your first loan, you'll complete entrance counseling and sign a Master Promissory Note, the loan contract.**
- 7 **Watch where the money goes.** The school applies it to tuition, fees, room and board and other charges first. Anything left is returned to you, and it must be spent on education expenses.
- 8 **Repayment starts after a six-month grace period once you graduate, leave school or drop below half-time.** Your servicer contacts you with your first due date.

Watch out Interest on an unsubsidized loan builds while you're in school, and in certain cases unpaid interest is added to the amount you owe (capitalized). Either way, you're responsible for it, and you can choose to pay the interest even when no payment is due. No payment goes to your principal until all unpaid interest is paid.

DAD NOTE Borrow for what you need, not for what they'll let you.

Full lesson: aptkeys.com/money/paying-for-college/federal-student-loans-explained/

Checked October 2, 2026. Sources: U.S. Department of Education (Federal Student Aid); Consumer Financial Protection Bureau.