

# VSAC loans: frequently asked questions

## What are loans? How do they differ from other forms of financial aid?

Loans are funds that are borrowed and repaid with interest. Loans differ from grants and scholarships, which are commonly referred to as “gift aid” because they are not paid back.

## What loan programs does VSAC offer?

VSAC finances student and parent loans through the U.S. Department of Education’s Federal Family Education Loan Program (FFELP):

- **Subsidized Stafford loans** for students who demonstrate financial need are available in amounts up to \$31,000 for dependent undergraduates, \$57,500 for independent undergraduates, and \$138,500 for combined undergraduate and graduate or professional training. The federal government pays the interest while the student is enrolled, and repayment generally begins six months after graduation.
- **Unsubsidized Stafford loans** are for students who do not qualify for the interest subsidy or who need to borrow more than they are eligible to receive through the subsidized program. The student is charged interest from the date the loan is issued. The amounts available are the same as for subsidized Stafford loans. Total borrowing through either or both programs cannot exceed these limits.
- **PLUS loans** are for parents of dependent students and for graduate/professional students. There are no limits on these loans; eligible borrowers may borrow up to the cost of attendance minus available financial aid.

VSAC also finances several private loans to supplement federal borrowing:

- **VSAC Advantage loans** for undergraduate and graduate students
- **VSAC Law loans** for students attending Vermont Law School or another VSAC-approved law school, and **VSAC Bar loans** for bar exam expenses
- **VSAC Medical loans** for students attending the University of Vermont College of Medicine or another VSAC-approved medical school, and **VSAC Residency loans** for residency program expenses

## How do VSAC’s loan rates compare with those of other lenders?

VSAC’s Stafford and PLUS loans are among the lowest-cost in the country, thanks to our generous borrower benefits. VSAC waives the origination and default fees on our Stafford loans, and offers a .25 percent (one-quarter of one percent) interest rate reduction for loans paid using automatic debit.

## What are actual savings?

Actual savings depend on the type of loan, interest rate, and length of repayment.

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### **How long have VSAC's borrower benefits been in effect?**

VSAC instituted borrower benefits on July 1, 1994. Current benefits include zero-fee Stafford benefit and the reduced fee grad PLUS benefit, both of which took effect on July 1, 2006.

### **How much has VSAC saved borrowers?**

VSAC has rebated more than \$126 million since the program's inception, and \$11.5 million in FY08 alone. Rebates for FY09 are expected to be about \$13.2 million.

### **How does VSAC pay for the rebates?**

As a public nonprofit corporation created by the state of Vermont, VSAC issues mostly tax-exempt bonds to raise capital for the student and parent loans it offers. (While VSAC does issue taxable bonds, 82 percent of its bonds are tax-exempt.) As VSAC collects interest on the student and parent loans it provides (most interest rates are set by the federal government), it must retain enough to repay bondholders and cover the costs of issuing the bonds. It is also allowed to retain up to 2 percent to cover the cost of VSAC services. Anything left over is considered "arbitrage" and must be returned either to borrowers or to the U.S. Treasury. VSAC has opted to return these excess funds to borrowers.

### **Why not just lower the interest rates charged on the loans?**

As a participant in FFELP, VSAC follows federal guidelines in setting the interest rates it charges.

### **Couldn't excess funds be used instead to provide need-based student grants?**

VSAC is often asked this question by those who would like to see proceeds from the loan program channeled into need-based grants. However, federal law prevents VSAC from using loan proceeds other than as described above.

### **How important are VSAC's borrower benefits?**

VSAC considers borrower benefits a critical component in its efforts to keep postsecondary education affordable for Vermonters and others who use our loan programs. In recent years, loans have become the primary method most American families use to finance higher education. Faced with rising loan burdens, many students and parents report they are having difficulty repaying their loans and have had to postpone other investments and consumer purchases in order to meet their loan obligations. VSAC is concerned about this trend and committed to initiatives designed to lower loan costs.

### **What else is VSAC doing to help?**

VSAC continues to encourage state and federal officials to increase grant funds. Since FY97, VSAC has not used any state funds to administer Vermont's grant programs, which means that 100 percent of funds are able to go to students. In 1999, VSAC began administering the Vermont Higher Education Investment Plan, a 529 plan that offers tax incentives for families to save for college, thereby reducing the need to borrow. In 2000, VSAC launched development efforts aimed at raising endowed scholarship funds to supplement other forms of assistance.