Student Loans
Financial Education NOW
For What Comes NEXT

South Carolina Legal Services
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This series provides an overview of student loan debt options. As evidenced by recent changes in debt consolidation in May 2014 and rehabilitation in July 2014, this area of the law is constantly changing.

YOU SHOULD CHECK THE ONLINE RESOURCES LISTED ON THE NEXT SLIDE FOR THE MOST RECENT UPDATES ON PARTICULAR OPTIONS YOU ARE CONSIDERING.

Information Not Legal Advice. This powerpoint has been prepared for general information purposes only. The information is not legal advice. Legal advice is dependent upon the specific facts and circumstances of each situation. The information contained herein cannot replace the advice of a competent, licensed attorney. You should be sure to consult an attorney in your area to discuss your particular case.
ONLINE RESOURCES

- **Studentaid.ed.gov**: The Department of Education’s comprehensive database, with an extensive glossary and the most current and up to date information about all things federal financial aid. [http://studentaid.ed.gov](http://studentaid.ed.gov)

- **Student Loan Borrower’s Assistance**: A program of the National Consumer Law Center, provides Self Help packets with forms and even model court briefs (for filing bankruptcy claims), provides many repayment calculators, is set up around a “Get Answers” platform that guides you to information on any and all student loan issues. [http://www.studentloanborrowerassistance.org](http://www.studentloanborrowerassistance.org)

- **Consumer Financial Protection Bureau**: They have similar helpful information to these other resources, and provide links to file a complaint and possibly get help for problems with your servicer. [http://www.consumerfinance.gov/paying-for-college/](http://www.consumerfinance.gov/paying-for-college/)

- **American Student Assistance and its Interactive program SALT**: This program combines access to financial counselors, information on all types of repayment programs, and information on what to do at each step of the repayment process. [http://www.asa.org](http://www.asa.org)  [http://www.saltmoney.org](http://www.saltmoney.org)

- **Tuition.io**: An online company with information and resources, various student loan debt programs and help with managing your loans. [https://www.tuition.io](https://www.tuition.io)
Overview

**Phase 1:** Before Starting School and While In School

**Phase 2:** Graduated/Left School Repayment of Student Loans

**Phase 3:** Unable To Make Student Loan Payments

**Phase 4:** Retired, Disabled, or Left the Work Force And Still Owing Student Loans
PHASE 1:
Before Starting School and While in School
PHASE 1: Before Starting College

- Included in Phase 1:
  - How to research college costs and student loans available to you
  - Importance of filling-out the FAFSA
  - Types of federal student loan programs
  - Getting private student loans
  - Other things to consider when picking which school to go to and how much student loan debt to take on
Research College Costs and Federal Aid Available to You

- **Use the National Center for Education Statistics’ College Navigator Tool**
  - It helps you compare colleges by type, location, and degree program.

- **Use the Department of Education’s College Scorecard**
  - It allows you to search for colleges base on degree program, occupation, location, and other factors.

- **If you are seriously thinking about college and want to know what it might cost, use the FAFSA4caster**, which gives a preview of what you and your family will have to pay for college. It requires tax and income information.
  - See [https://fafsa.ed.gov/FAFSA/app/f4cForm?execution=e1s1](https://fafsa.ed.gov/FAFSA/app/f4cForm?execution=e1s1)
Research College Costs (cont.)

- **College Scorecard**: [http://collegecost.ed.gov/scorecard/index/aspx](http://collegecost.ed.gov/scorecard/index/aspx)
  - Helps you compare colleges by a number of different search criteria, including area, degree program, occupation, and size
  - Grants access to net cost of attendance information

- **Net Price Calculators** available on each school’s website

- **Financial Aid Shopping Sheet**: New voluntary initiative by schools
  - Provides you a form financial aid letter that lays out costs and aid in simple terms
  - Helps you directly compare costs at different schools. Over 1,900 colleges have agreed to use it so far
  - Even gives graduation rate and loan default rate at the school
Fill Out the FAFSA

- Fill-out the FAFSA (Federal Application for Federal Student Aid) located at [https://fafsa.ed.gov/index.htm](https://fafsa.ed.gov/index.htm)
  - Do this as shortly after January 1 of the year you plan to start college to maximize your eligibility for all types of federal aid
- You must fill out the FAFSA for every year you plan to be enrolled at least half-time because without the FAFSA, you will not be eligible for any student federal aid
- The FAFSA is used to ensure that students who qualify for federal grants, work-study awards, and subsidized loans exhaust their eligibility before resorting to unsubsidized student loans
To fill-out the FAFSA, you will need yours and your parents’ income tax returns and W-2 forms:

- The FAFSA will generate a PIN number for you that is the link to all your federal financial aid. Don’t lose it!
- You can use your PIN on the National Student Loan Data System to track the amounts of your loans and contact information for your servicer for each loan. See http://www.nslds.ed.gov/nslds_SA/
Once you complete the FAFSA, you will receive a **Student Aid Report (SAR)** which will detail the amount of federal aid you qualify for.

Based on this amount, your school will then send you a financial aid award letter, including the full amount you are eligible to receive.

In order to accept these loans, you are required to submit a **Master Promissory Note (MPN)**.

- This is a contract where you agree to pay the loans back.
Types of Federal Aid Available

• The aid you are eligible for depends on your family income. In general, the lower your family income, the more aid you are eligible for.

• Types of federal aid include:
  - **Grants** → money you do not have to pay back.
  - **Federal Work-Study** → money paid to you for working part-time on campus while you are in school. Also doesn’t have to be paid back.
  - **Federal Student Loans** → money loaned to you by the government.
Federal Loan Programs

- In order to qualify for federal student loans, you must fill-out the FAFSA and to remain eligible for federal loans, you must fill-out the FAFSA for each year you attend school where you remain enrolled in a degree or certificate program at a qualifying school at least half-time.

- There are 3 main federal loan programs:
  - Federal Perkins Loan Program (Perkins Loan)
  - The Federal William D. Ford Direct Loan Program (Direct Loan)
  - Stafford Loans
Perkins Loan

- Available to undergraduate, graduate/ professional students with exceptional financial need
- Not all schools participate in the Perkins Loan Program
  - Check with your school’s financial aid office to see if your school participates
- Your school is the lender and you will make payments to the school that made your loan or to your school’s loan servicer
Perkins Loan (cont.)

- The fixed interest rate is 5%
- The amount of funds you receive each year will depend on your financial need, availability of funds at your school, and the amount of other aid you receive
- As an undergraduate, you may be eligible for up to $5,500 per year (or a total of $27,500)
- As a graduate/professional student, you may be eligible for up to $8,000 per year (or a total of $60,000, which also includes the amounts that you borrowed as an undergraduate student)
Direct Loans

The federal government lends money to you directly.

- For Direct Loans, your loan will be managed by a servicer
  - Your servicer will be a government agency or corporation that administers your loans. You also make payments to your servicer.
- There are **3 types** of loans disbursed under the Direct Loan Program:
  - 1) Direct **Subsidized Loans**: For undergraduate students with demonstrated financial need
  - 2) Direct **Unsubsidized Loans**: For all types of students
  - 3) Direct **PLUS Loans**: For graduate/professional students OR parents of undergraduate students

Note: As of June 30, 2010, federal Stafford loans and PLUS loans are part of the Direct Loan program.
Direct Subsidized Loans

- Available to undergraduate students with financial need
- Your school determines the amount you can borrow and the amount may not exceed your financial need
- The fixed interest rate is 3.86% for the 2013-2014 academic year
- The US Department of Education pays the interest
  - While you are enrolled in school at least half-time
  - The first 6 months after you graduate/leave school (grace period)
  - During period of deferment

**Current Annual Borrowing Limit**: $3,500 - $5,500, depending on grade level

**Current Total Borrowing Limit**: $23,000 for undergraduates
Direct Unsubsidized Loans

- Available to undergraduate and graduate/professional students, no requirement to demonstrate financial need
- Your school determines the amount you can borrow based on your cost of attendance and other financial aid you receive
- The fixed interest rate for undergraduates is 3.86% and 5.41% for graduate/professional students for the 2013-2014 academic year
- You are responsible for paying the interest while enrolled in school, during the 6 month grace period, and during deferment or forbearance periods
  - If you do not pay the interest during these periods, then the interest will be added to the principal amount of your loan
- **Current Annual Borrowing Limit:**
  - $5,500- $12,500 for undergraduates, depending on grade level
  - $20,500 for graduate/professional students
- **Current Total Borrowing Limit:**
  - $31,000-$57,500 for undergraduates
  - $138,500 for graduate/professional students
Direct PLUS Loans

- Available to graduate/ professional students OR parents of a dependent undergraduate student
- In order to qualify for a PLUS loan, the borrower must not have an adverse credit history, or a credit history experiencing conditions including bankruptcy, repossession of collateral, or foreclosure in the past five years, unpaid collection accounts, and other credit negative credit aspects that can be seen at https://studentaid.ed.gov/glossary#Adverse_Credit_History
- The fixed interest rate is 6.41% plus a 4.288% origination fee for the 2013-2014 academic year, while after July 1, 2014 and before July 1, 2015 the interest rate is 7.21% and the origination fee is 4.292%
- The maximum loan amount is the student’s cost of attendance (as determined by the school) minus any other financial aid received
Federal Stafford Loans

- Stafford loans are the most common form of government student loans

In order to be eligible for this loan, you must:
  1) Be a U.S. citizen or national, a U.S. permanent resident, or eligible non-citizen accepted for enrollment or attending a school that participates in the Federal Direct Loan Program
  2) Submitted the FAFSA
  3) Be enrolled or plan to enroll at least half time
  4) For Subsidized Stafford, you must have financial need as determined by your school

There are 2 types of Stafford loans:
  - Subsidized Stafford Loans
  - Unsubsidized Stafford Loans
Subsidized Stafford Loans

- Available to undergraduate students with financial need
- The fixed interest rate is 3.86% for 2013-2014 academic year and 4.66% for 2014-2015 academic year
- The federal government pays interest on this loan while you are enrolled in school and during the 6 month grace period

- **Annual Borrowing Limits for Dependent Students for both 2013-2014 and 2014-2015, depending on dependency status:**
  - $3,500 for Freshman Year
  - $4,500 for Sophomore Year
  - $5,500 for Junior Year
  - $5,500 for Senior Year and Beyond

- **Current Total Borrowing Limits:**
  - $23,000
Unsubsidized Stafford Loans

- Available to undergraduate and graduate / professional students, no requirement to demonstrate financial need
- The fixed interest rate is 3.86% for undergraduate students and 5.41% for graduate students for the 2013-2014 academic year, and 4.66% for undergraduate students and 6.21% for graduate students
- Not required to pay interest on loan while enrolled in school
- **Current Annual Borrowing Limit:**
  - $12,500 for undergraduates, depending on grade level and dependency status
  - $20,500 for graduate/ professional students
- **Current Total Borrowing Limit:**
  - $31,000 for undergraduates
  - $138,500 for graduate/ professional students ($224,000 for certain medical school students)
Helpful Information on Accepting and Paying Federal Student Loans

- You must sign a **Master Promissory Note** (MPN)
  - This is a contract where you agree to pay the loans back
  - Available at [http://studentloans.gov](http://studentloans.gov)
- You must also complete **Loan Entrance Counseling** as directed by your school
- You must accept the amount of loans and aid you want
- Keep track of the dates and amounts of loans that are paid to you or to your school on your behalf
Helpful Information on Federal Loans

- You make loan payments to a servicer, a governmental agency or corporation that collects your loan payments.
- This loan servicer is also your contact for loan repayment.
- The interest rate is fixed for the life of the loan.
- You do not have to make payments while enrolled in school half-time.
- You can pay the interest on any unsubsidized or PLUS loans you have.
Private Loans

- Private loans are originated by for-profit institutions, primarily, but not exclusively, banks.
- Here is a list of the 10 main private education loan holders:
  - Sallie Mae
  - Citi Student Loans
  - National Education Loan Network
  - Wells Fargo Education Financial Services
  - Pennsylvania Higher Education Assistance Agency
  - Wachovia Education Finance
  - JP Morgan Chase Bank
  - College Loan Corporation
  - Student Loan Xpress
Private Loans (cont.)

- Private Lenders usually require a co-signer on your loan
- Private loans have a variable interest rate
  - The interest rate on your loan is based on your and your co-signer’s creditworthiness (Credit Score)
  - The higher credit score you and your co-signer have, then the lower your interest rate will be
- Variable interest rates range from 2.98% to 20%
- Variable interest rates can increase or decrease depending on the economy and your variable interest rate will increase if you miss a payment
- The majority of private lenders do not require you to make payments while you are in school
Private Loans (cont.)

- Private student loans were designed to supplement federal loans and grants as the cost of tuition and fees for college continued to rise.
- Stagnant federal student loan limits account for the majority of growth in the private student loan market.
- The number of private loans has continued to increase because the number of borrowers has increased.
- There are 2 main areas where the use of private loans have helped students pay for school:
  - Scenario I: student fails to timely submit the FAFSA for any year they are attending school.
  - Scenario II: Only Federal Loan Option Left Is Parent PLUS but you do not have a parent willing to participate.
Scenario I: Fail to Submit the FAFSA

- In order to be eligible for any type of federal aid, you must submit the FAFSA and must submit the FAFSA for every year you are in school and need federal aid
  - If you fail to submit the FAFSA during any of the years you attend school, then you will not receive any federal aid for that academic year
- Failure to submit the FAFSA has a greater impact on graduate/ professional students than undergraduate students

Scenario II: Private Loans v. Parent PLUS Loans

Private Loans
- Allow any willing relative or third party to co-sign on the loan
- Co-signers with excellent credit scores may be able to get a better variable interest rate as opposed to Parent PLUS fixed interest rate

Parent PLUS Loans
- Only allow your biological or adoptive parents to participate
- Fixed interest rate of 6.41% plus a 4.288% origination fee
Other Considerations When Deciding Where to Go to School and How Much Debt to Take On

- Maximize federal loans before taking out private loans
- Avoid taking on debt that is more than your expected 1st year salary
- Start looking for free money now
- Consider whether you will want to pursue a career in public service
- Plan out your course load
- Cut costs
Maximize Federal Loans Before Taking Out Private Loans

- Federal student loans have fixed interest rates and offer at least 8 different repayment programs and programs to get you out of default, if needed (which are discussed in more detail later).
- Private student loans have variable interest rates and not as many repayment plan programs and do not have programs in place to help you get out of default.
- If you have maximized your federal loans and still have financial need, private loans are a useful tool but shop around.
Avoid Taking on Debt That Exceeds Your Expected 1<sup>st</sup> Year Salary

- Calculate your total debt for all years of school
  - To get a ballpark estimate, multiply your 1<sup>st</sup> year loan by the number of years of your program to get a number within 15% of your total debt
- To find salary information, check out: salary.com, payscale.com, or glassdoor.com
- Ideally, your total debt should be a lot less than your expected starting salary so you can pay your debt in 10 years or less
While student loans are helpful, they must be paid back whereas grants and scholarships do not have to be paid back.

Check out these free scholarship-matching sites:
- Fastweb.com
- Studentscholarshipsearch.com
- Collegescholarship.org

According to Sallie Mae’s How America Pays for College 2013 report, “free money” now funds 30% of college costs, up from 25% four years ago.
Consider a Career in Public Service

- Public Service Loan Forgiveness encourages graduates to take on positions in non-profit and government roles and will forgive your federal loans after you have worked in a qualifying nonprofit or government setting for 10 years.
- If you are not sure if you want to work in public service, it is still a good idea to take out the type of loans that would qualify for this program.
Plan Your Major and Course Load Well

• Once you know what degree you want to pursue, plan what courses you will take from then until graduation, including all prerequisites and noting, for instance, when classes (especially required courses) are only offered once every two years
• Above all, try not to let 4 years turn into 5 years. Don’t fail or repeat classes and try not to change majors too often

Cut Costs

• Live at home or live with a roommate
• Rent textbooks or buy them used, then sell them at the end of the semester
• Stay on your parents’ health insurance
• Forgo the meal plan and cook at home
• Get a part-time job
Things to Remember/ Consider While in School

- Fill-out the FAFSA every year
- Know who your servicer is and keep records of any emails, letters, or documents they send you
- Try to pay the interest on your Unsubsidized and PLUS loans each month
- Take steps to bring down your expenses and spending
- Avoid using credit cards to make loan payments (credit cards usually have higher interest rates)

Why It Is Important to Pay Interest on Your Federal Loans

- If you have any Unsubsidized or PLUS loans, try to pay the interest on these loans each month, otherwise, the unpaid interest will be added to your principal which will increase the total amount you will have to pay back
  - Interest payments will likely be around $200 per month, even with larger loans
- If you have any Perkins or Subsidized loans, you do not have to pay interest while in school because the government pays the interest for you
Loan Repayment During School

- If you find you have borrowed too much and do not need all the money, federal loans allow you to send money back to your loan servicer without penalty and this will reduce the amount of your principal.
- Thus, if you can live inexpensively, you don’t have to borrow the maximum amount.
Private Loans

- The majority of private lenders do not require that you make payments while enrolled in school, however, you should still try to make interest payments every month.
- Be sure to know when you must begin to start repaying your private loans.