

Lesson 7: Types of Student Loans, how to manage student debt, and filling out FAFSA.

By Wes Jackson

Intro to Financial Aid



- **Figuring out how Much Financial Aid You will receive!**
This is all based on how much you need from the standpoint of the US government. The basic formula for figuring the financial aid package you might obtain is the following:
- **Cost of Attendance – Expected Family Contribution = Financial Need**

Intro to Financial Aid



- **Factoring Cost of Attendance (COA) in a Brief Summary:** Each school that you are interested in and get accepted determines using your COA and personal circumstances the financial package you will receive. The factors that are considered are the following: Tuition and fees, as well as allowances for books and supplies, living expenses, transportation, and personal costs, course of study, grade level, residency status, etc. are also used in calculating your COA.

Intro to Financial Aid



- **Factoring Expected Family Contribution (EFC) in a Brief Summary:**
The Expected Family Contribution (EFC) is the amount that you and your parents (if you are a dependent student) are expected to contribute to your university expenses. This data is provided from you and your parents supply on the FAFSA and/or the CSS/Financial Aid profile application. The EFC is mainly categorized by family income and assets, number of family members, and number of family members in college.

Intro to Financial Aid



- **Financial Need Overall:**
Your financial need is calculated as being the difference between the Cost of Attendance and the Expected Family Contribution. The total financial package you get is then determined upon your financial need but may vary from school to school depending on educational costs, aid policies, and amount of aid available at that time. In theory, the greater your financial need is, the more you are eligible for gift aid (money that you do not have to pay back) or other need based aid, such as Federal Subsidized Stafford Loans. If you have no need for financial aid, you might be able to receive non-need based aid, such as certain scholarships or Federal Unsubsidized Stafford Loans.

Types of Student Loans



- **Direct Subsidized Loans:**
Loans provide to students with financial need.
- “Subsidized: for students with demonstrated financial need, as determined by federal regulations. No interest is charged while a student is in school at least half-time, during the grace period, and during deferment periods.”
- Current interest rate: **4.29% (2015-2016).**

Types of Student Loans



- **Direct Unsubsidized Loans:** Loans provide to students, and they are not determine by financial need.
- Unsubsidized: not based on financial need; interest is charged during all periods, even during the time a student is in school and during grace and deferment periods.
- Current interest rate: **4.29% (2015-2016)**

Types of Student Loans



- **Direct PLUS Loans:**
Loans provided to students, graduates, professional students, and parents of dependent undergraduates to help pay for costs not covered by financial aid
- **PLUS:** unsubsidized loans for the parents of dependent students and for graduate/professional students. PLUS loans help pay for education expenses up to the cost of attendance minus all other financial assistance. Interest is charged during all periods.
- Current Interest Rate: **7.21%**
- **Note: PLUS loan borrowers cannot have an adverse credit history (a credit check will be done).**

Types of Student Loans



- **Direct Consolidation Loans:** This allows you to combine all loans into a single loan by one single loan servicer.
- “Carefully consider whether loan consolidation is the best option for you. Loan consolidation can greatly simplify loan repayment by centralizing your loans to one bill and can lower monthly payments by giving you up to 30 years to repay your loans. You might also have access to alternative repayment plans you would not have had before, and you’ll be able to switch your variable interest rate loans to a fixed interest rate.”
- “However, if you increase the length of your repayment period, you’ll also make more payments and pay more in interest. Be sure to compare your current monthly payments to what monthly payments would be if you consolidated your loans.”
- Requirements: (I will tell you this information).

Types of Student Loans



- **Perkins Loan:** , are low-*interest* federal student loans for undergraduate and graduate students with exceptional *financial need*.
- Not all schools participate in the Federal Perkins Loan Program. You should check with your school's financial *aid office* to see if your school participates.
- Interest rate: **5% (2014-2015)**.
- Your school is the *lender*; you will make your payments to the school that made your loan or your school's *loan servicer*.
- **Best loans to have!**

Types of Student Loans



- **Private Loans: The most volatile loans to take out. DANGEROUS!!!!!!**
- Loans are issued by bank lenders and private companies.
- **Interest Rates vary!**
- “As a general rule, students should only consider obtaining a private education loan if they have maxed out the Federal Stafford Loan.”
- “The best private student loans will have interest rates of LIBOR + 2.0% or PRIME - 0.50% with no fees.”

Types of Student Private Loans (Cont.)



- **Private Loans: The most volatile loans to take out. DANGEROUS!!!!!!**
- **Private Loan Chart: On next slide**

Types of Student Private Loans (Chart and Video about Private Loans)

[Private Loan Chart:](#)

<http://www.finaid.org/loans/privatestudentloans.phtml>

Watch this video PBS Student Loans video (copy link and paste on Google bar):

<http://www.youtube.com/watch?v=eOzb2gUgwOQ>

Types of Grants



- **Pell Grant:** Grant provided to Undergraduate Students (no previous degree) , and they do not have to pay them back.
- July 1, 2014 to June 30, 2015), the maximum award will be \$5,730.
- Depends on:
- your *financial need*,
- your cost of attendance,
- your status as a full-time or part-time student, and
- your plans to attend school for a full *academic year* or less.

Types of Grants



- **FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANT (FSEOG) PROGRAM**
: Grant provided to Undergraduate Students (no previous degree) , and they do not have to pay them back. Need based.
- July 1, 2014 to June 30, 2015, the maximum award will be \$100 to \$4,000 a year
- Depends on:
- your *financial need*,
- your cost of attendance,
- your status as a full-time or part-time student, and
- your plans to attend school for a full *academic year* or less.
- Not every institution participates!

Types of Grants



- **TEACH Grants:** “can help you pay for college if you plan to become a teacher in a high-need field in a low-income area.”
- *“You’ll be required to teach for a certain length of time, so make sure you understand your obligation.”*
- You will be rewarded at a maximum of \$4,000 dollars.
- Requirements:
- in a high-need field
- at an elementary school, secondary school, or **educational service agency** that serves students from low-income families
- for at least four complete academic years within eight years after completing (or ceasing enrollment in) the course of study for which you received the grant.

Types of Grants



- **Iraq and Afghanistan Service Grant:**
- “If your parent or guardian died as a result of military service in Iraq or Afghanistan, you may be eligible for an Iraq and Afghanistan Service Grant.”
- “You may be eligible to receive the Iraq and Afghanistan Service Grant if (same amount)”
- “You are not eligible for a [Federal Pell Grant](#) on the basis of your Expected Family Contribution but
- meet the remaining Federal Pell Grant eligibility requirements, and
- your parent or guardian was a member of the U.S. armed forces and died as a result of military service performed in Iraq or Afghanistan after the events of 9/11, and
- you were under 24 years old or enrolled in college at least part-time at the time of your parent’s or guardian’s death.”

Cont. Common College Application

- Worked on finishing the Common College Application.
- Leave on Hold if no ACT/SAT score.
- Approximately 2-3 hours.

FAFSA

- <https://fafsa.ed.gov/>
- After Common College Application, let's fill out FAFSA.
- Takes 1-1.5 hours.

Debt: Facts, Tips, Scenarios, and For-Profit College Nightmare



Average Student Loan Debt and other facts about Student Loan Debt

- **Average student loan debt: \$29,400 (*2012)**
- **Seven in 10 seniors graduated with student loan debt**
- **Average debt by college ranged from as little as \$4,450 to \$49,450 in 2012.**
- **Percentage of students with loans also varied from 6% to 100%, TICAS found.**
- **Tuition at State schools have a average 6% hike every year.**
- **High school grads without college degrees faced an unemployment rate of 17.9% in 2012, compared to 7.7% for young college graduates.**
- **One in five loans are private loans (BAD! VERY BAD!!!!!!).**

Tips on paying off Student Loans(1)

- **1. Do not put off the student loan debt:** You must tackle the loan right away before your six month grace period. Do not wait for the first month of repayment to start. Save each month of the six month grace period (like you started paying for your loan). If you do not have the income to do this, you need to find an existing job or a second job in order to do this.
- **2. Know everything about the repayment plan and its rules:** Remember, you may take out \$20,000, but it is really \$35,000 from some loan plans. Know your interest rates (government back and/or private). Know how much you have to pay each month.
- **3. If you are in the final year, start saving for repayment while in school:** Pick up a part time job while in your final year. Use the money after gas for specifically the student loan.
- **4. Sell something of value or have a yard sale:** If your Grandpa left you a painting value at \$1500, sell it to a collector (you might have enough to cover one to six months). Sell your possessions that are not family heirlooms (unless you can depart from them) or is useful (like your car). Dedicate the money towards the student loans.

Tips on paying off Student Loans (2)

- **5. Keep a separate account and make your student loans automatically drafted:** This one has helped me a lot. Most student loans can be taken out automatically, and they will sometimes give you an interest reduction (mine was .125%).
- **6. Pay more than the minimal payment:** If you can, make extra payments throughout the year. This will reduce the number of years on the loan and thus reduce the extra you pay on interest.
- **7. Get on a budget:** If you have to, eat Ramen noodles for a while. Focus on paying off those loans for the first two to three years. Make a plan for how to tackle the loans.
- **8. Pay off the smallest loan first:** I agree with someone like Dave Ramsey (financial guru) on this point. Although most experts will tell you to pay off the loan with the highest interest, it is about the psychological aspects of debt that are the most important. You will be encouraged by paying off the loan, thus, it will motivate you to finish those loans off.
- **9. Pay off the loan with the highest interest rate after the first two smallest loans:** If the first two smallest loans are not the highest interest rate, pay this the highest one third. The other two motivate you and now it is time to knock off the highest interest rate.

Tips on paying off Student Loans (Final)

- **10. Get a part-time job and/ or second- full time job:** One of the most obvious ways to pay off debt. You can only handle the cash inflow and outflow. In this case, the inflow must increase . Here are a few ideas for jobs:
- **A. Tutor:** You could tutor local kids for money. On average, tutors can make \$15-\$25 per hour.
- **B. Bar tending:** This might not be as easy as tutoring, but you can make a lot of money. This job can be done on the weekend.
- **C. Odd Jobs:** Cut people's yards, paint houses, pick weeds out of flower beds, clean their house, etc.
- **D. Commission Only Based Salespeople:** Sale products and services for a commission. This will be the hardest one. Most of your family and friends will get sick of this pretty fast.

Tips for International Students on Loans

- **1. Get a loan in your home country:** Your country's education department or central bank may have loan programs for studying abroad. Be careful of high-interest rates and having to prove assets (parents' house).
- **2. U.S. Colleges:** Most U.S. colleges will not lend money, but some colleges do.
- **3. Friends and family:** A rich uncle or aunt may help out with college expenses. You can ask your family as a whole to help out with the cost.
- **4. U.S. banks:** Some banks will give student loans to international students, as long as, they have an American co-signor.
- **Note: You must prove adequate funds to pay for U.S. Universities.**

Math Problems with Student Loan Debt



Debt Scenario #1: Jimmy

1. Jimmy wants to go to XYZ University. It cost 25,000 a year for a grand total of \$100,000 (includes tuition, fees, books, room and board, meal plan, and school supplies). Jimmy's parents can afford \$10,000 each year for a grand total of \$40,000. Jimmy must take out direct loans for the rest. How much will Jimmy have to pay back?

Use this loan calculator: <http://www.bankrate.com/calculators/college-planning/loan-calculator.aspx>

Debt Scenario: #2 Jen

- 2. Jen is a freshman at DEFG College. Her parents cannot help out with loans. She does not qualify for a Direct Loans. Jen takes a loan out with Sallie Mae. Her loan is a total of \$50,000. The loan has an interest rate of 10%. A. What will be her monthly cost? B. What will the total loan cost at 10 years?
- Use calculator below:
- <https://www.salliemae.com/plan-for-college/college-planning-toolbox/student-loan-payment-amount-estimator/Default.aspx#results>

Debt Scenario: #3 Amir

- Amir is an international student from Saudi Arabia. His uncle wants Amir to go to NYU for college. NYU costs approximately \$63,472 a year (<https://www.google.com/webhp?sourceid=chrome-instant&ion=1&espv=2&ie=UTF-8#q=how%20much%20does%20nyu%20cost%20per%20year>) . Amir receives a scholarship for \$13,472 per year for four years (bachelor degree length).. His uncle will cosign a loan through Sallie Mae for him. The loan interest rate is 15%. A. How much will he owe monthly? B. What is the total amount he owes in 10 years?
- Use calculator below:
- <https://www.salliemae.com/plan-for-college/college-planning-toolbox/student-loan-payment-amount-estimator/Default.aspx#results>

More Scenarios on Video

Watch the YouTube video

PBS Documentary: the Student Loan Documentary (Broadcast Version)

Copy and paste link!

<https://www.youtube.com/watch?v=wwQR93C6n2E>

Take Test!

- Study for Test: There are 25 questions on this test. Multiple choice and true/false questions.