

L A D D E R ^{up}



Student Loan\$:

*How To Be A \$mart \$tudent
Borrower*

Starting with the Basics:

How do students pay for college?

How is loan eligibility determined?

Why do students borrow?

How much debt is too much debt?

How can students minimize debt?

How Do Families Pay For School?



Student income and savings

Student borrowing

Parent income and savings

Parent borrowing

Grants and scholarships

Donations from friends and relatives

Why Do Students Borrow?

To cover out-of-pocket expenses.

To cover money that they will **NOT** be earning from federal work study.

If they know their living expenses will be higher than the college estimate.

Any other reason.

Each student has a different situation. It is up to the student to decide how much she/he needs to borrow in student loans. Some students may need to borrow extra money for child-care...etc.

Of course, BE CONSERVATIVE! You want to borrow money if it will help you get an education, but NEVER BORROW MORE THAN IS NECESSARY!



NOTE: Student loans are in the STUDENT'S NAME. After the student graduates, she/he will have to start making loan payments.

Things To Consider When Making Borrowing Decisions:

1. What career will I pursue?
How much does that career pay?
2. Will I be able to work and make payments on my loans while I am in school?
Or will I have to wait to make payments until I graduate?
3. How much money would I need to borrow? (What is leftover after adding up other sources of funding?)
4. Am I responsible enough to make my payments on time until all of my debt is paid off?

After Calculating Your Financial Need: *Decide How Much You Want To Borrow*

How much debt is too much debt?

Take into
account these
things

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graph LR; A[Take into account these things] --> B[Debt-to-Income Ratio]; A --> C[How many years will you need to take out student loans?];
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The diagram features a central blue box on the left with the text 'Take into account these things'. Two pink arrows originate from the right side of this box. The upper arrow points to a pink box containing the text 'Debt-to-Income Ratio'. The lower arrow points to a pink box containing the text 'How many years will you need to take out student loans?'. The background is a solid light green color.

Debt-to-Income
Ratio

How many years will you
need to take out student
loans?

Debt-to-Income Ratio

Help With Smart Borrowing

$$\begin{array}{l} \text{Total Monthly} \\ \text{Debt} \\ \text{(When you} \\ \text{graduate)} \end{array} \div \begin{array}{l} \text{Total} \\ \text{Monthly Net} \\ \text{Income} \\ \text{(When you} \\ \text{graduate)} \end{array} =$$

**Debt-to-Income
Ratio**

When you do this on your
calculator it will come out as
a decimal

EXAMPLE: .15 = 15%

The resulting number will be a percentage

Under 15% = RELAX! This is a very manageable amount of debt.

15-25% = BE CAUTIOUS! Borrower may want to consider eliminating some debt.

Over 25% = DANGER! This is a very high percentage of debt! This means you will be spending 25% of every paycheck on your debt.

Police Officers



Police officers in IL earn an average starting salary of about \$35,000.

With an average starting salary of \$35,000...

15% Debt-to-income ratio would mean:

Borrowing \$5,250 is very safe

www.myplan.com

A good resource for finding average salaries for every career

Cosmetologists, Beauticians, and Barbers



Beauticians, barbers, and cosmetologists make an average starting salary of about \$27,000.

With an average starting salary of \$27,000...

15% Debt-to-income ratio would mean:

Borrowing \$4,050 is very safe

www.myplan.com

A good resource for finding average salaries for every career

Forensic Scientists



As a forensic scientist working in the criminal justice system, you will earn about a \$55,000 salary to start out.

With an average starting salary of \$55,000...

15% Debt-to-income ratio would mean:

Borrowing \$8,250 is very safe

www.myplan.com

A good resource for finding average salaries for every career

RN (Registered Nurse)



If you decide to become a registered nurse (RN), you will start out making about \$60,000.

With an average starting salary of \$60,000...

15% Debt-to-income ratio would mean:

Borrowing \$9,000 is very safe

www.myplan.com

A good resource for finding average salaries for every career

It is important to remember that **YOU** should be the one to decide how much debt you are willing to take on.

Your career goals might dictate borrowing more than the income-to-debt ratio guidelines suggest.

It is okay to borrow what you need as long as you are making an INFORMED AND INTELLIGENT DECISION.

This just means...

Think about it first. Spend some time planning your life, and decide what amount of debt you feel comfortable with based on where you will be in the future.

Is It Possible To “Pay As You Go?”

Example 1:

Tuition and Fees: \$12,240 (Public 4-yr school)

Minimum Wage: \$8.50

1440 Hours of Work

Approximately 39 weeks (if working full-time)

Example 2:

Tuition and Fees: \$3,060 (Community College)

Minimum Wage: \$8.50

360 Hours of Work

Approximately 10 weeks (if working full-time)

BUT...is it possible to work full-time while you are in school?

One Important Statistic To Remember When Borrowing:

It is likely that for every dollar you borrow, you will end up paying 2 dollars back!

Why?

INTEREST!!!

Interest is money paid for the use of money. When someone lends you money, they charge you a fee for allowing you to use their money.



How is Loan Eligibility Determined?

Federal Loans and Private Loans Have Different Eligibility Requirements:

Federal Student Loans

Will you get satisfactory grades?

What is your level of financial need?

Private Student Loans

Can you get a co-signer? What is his/her credit score?

What are your career plans?

How long will you be enrolled in school?

Will you get satisfactory grades?

Do you have any outstanding debts?

Student Loan Process

1. Loan Application (FAFSA)
2. Sign Master Promissory Note
3. Disbursement of Funds
4. Saving
5. Grace Period
6. Repayment Process
7. Payment of Debt in Full

The Loan process has 7 phases and a number of steps in each phase—from applying for financial aid to paying off a loan

Master Promissory Note

you have confirmed your information,
t what you would like to do:

omplete Financial Awareness Counseling

omplete Entrance Counseling

request a Direct PLUS Loan

omplete Master Promissory Note

ndorse a Direct PLUS Loan

am not sure (we will ask you a series of
uestions to direct you)

The MPN is a legal document in which a borrower promises to repay a loan and any accrued interest and fees

- It also explains the terms and conditions of a loan (s)
- A MPN can be used to make all Direct Loans during a student's college attendance, if a college chooses to use it to make multiple loans
- If a student prefers to sign a separate MPN for each loan, notify the school
- Many schools use the electronic MPN (e-MPN)

Complete Entrance Counseling * Sign MPN * Complete Exit Counseling

Disbursement of Funds

Loan Programs

- **Federal Perkins Loan**
- **Federal Direct Stafford Loan Program**
- **Federal Direct Plus Loan Program**
- **Alternative Loans**

DIRECT LOAN FACTS

1. Federal loans are borrowed funds that must be repaid with interest
2. To establish eligibility students must complete a FAFSA
3. A college will usually certify the maximum amount of loan funds for an eligible student
4. A borrower may accept all, some, or none of the loan funds offered and sign the MPN

A variety of loan options are available to students and parents

Federal Subsidized Loans

- Very low interest rate
- **Doesn't start accruing interest until you graduate!**
(accrue = accumulate/add onto)
- Federal loan: you get a grace period after graduation (you don't have to make payments yet)

Federal Unsubsidized Loans

- Very low interest rate
- **Starts accruing interest as soon as the loan money is disbursed (goes to your school)**
- Federal loan: you get a grace period after graduation (you don't have to make payments yet)

**Choosing Loans:
Subsidized vs. Unsubsidized?**

Ways To Save While in School!

Start at a
community college

Room-mates or
pick less expensive
dorm options

**Complete your
FAFSA early!**
(Starting Jan. 1st)

Use hand-me down
items for your
dorm or apartment

Rent textbooks, or
buy used ones
(Look them up by
the ISBN number)

Grace Period

❖ How long is a grace period?

- Terms can range from immediate payment to a year or more. Common grace periods are 6 to 9 months after graduation.

❖ What does it mean?

- Usually, this means that a student is excused from making payments on a loan while in school and for several months following graduation.

❖ When will a grace period start?

- The grace period may end if a student drops below half-time enrollment or leaves school without graduating.

❖ When will loan repayment begin?

- Loan repayments begin after the end of the grace period.

Student loans often have grace periods, amounts of time during which a borrower is not required to make payments

Repayment Process

Federal Perkins Loan (Need-Based Loan)

- Low-interest program
- Awards based on financial need
- Funding is limited; preference given to students with exceptional need
- Criteria may change from year-to-year based on available funds
- 5% interest rate, \$5,500 annual max
- 9 month grace period, 10 years repayment period

Direct Stafford Loan Programs (2014-15 estimates for dependent students):

- Loan maximums range from \$5,500-\$7,500 unsubsidized, and \$3,500-\$5,500 subsidized
- Maximum depends on your academic status (freshman, sophomore, etc..)
- Loan maximums for students whose parents are unable to obtain a PLUS loan range from \$9,500-\$12,500 unsubsidized, and \$3,500-\$5,500 subsidized

Ask the financial aid advisor about your loan eligibility

Repayment Process: Credit-Based Loans

Federal Direct PLUS (Credit-Based Loan)

- Loans are not based on demonstrated need
- A loan fee is deducted from each disbursement
- Parents should begin the process early- as soon as they determine a desire to borrow
- Begin repayment after a loan is fully paid to a college
- Fixed interest rate, annual loan limit is based on the financial aid deducted from the COA
- Grace period is 60 days, 10 years repayment period

Alternative/Private Loan Programs

- Eligibility for most of these loan programs is based on:
 - The creditworthiness of a borrower, and
 - May require a co-signer
- Loans are not subsidized
- Interest rates varies
- Maximum loan amounts varies
- Grace periods vary, private student loans are not subsidized; may require payment while still in school
- Repayment periods vary; immediately or soon after disbursement

Ask the financial aid advisor about your loan eligibility

Payment of Debt in Full

Repayment Options:

- A student can choose a repayment plan or change it at any time after payment on a loan (s) has begun
- Standard Repayment is up to 10 years
- Pay As You Earn Repayment: up to 20 years to repay, any outstanding balance after 20 years of payments is forgiven
- Income Based Repayment: up to 25 years to repay, only student's income used to determine payments, any outstanding balance after 25 years is forgiven
- Graduated Repayment: up to 10 years for repayment

A **deferment** is an eligible postponement of payment on a loan, during which interest does not accrue if a loan is subsidized. A student may qualify for a deferment while:

- Enrolled at least half-time in an eligible postsecondary school
- Unemployed or meet rules for economic hardship (limited to 3 years)
- Engaged in qualifying active duty service in the U.S. Armed Forces or National Guard

A forbearance allows a borrower to temporarily stop making payments on a loan

Staying out of Default: There can be any number of reasons why a borrower may not make payments, but once a certain period of time has elapsed, that non-payment record will become a part of a borrower's credit history

Use this worksheet to compare each of your financial aid award letters! This will help you decipher which schools are giving you the best deals financially.

But remember, price should only be one of the factors in choosing a school. This sheet will just help you see your finances a little better at each school, so that when you enroll, you will be prepared.



Financial Aid Comparison Worksheet

- ▶ Use this worksheet to generate a side-by-side comparison of the financial aid offers you have received.
- ▶ To explore careers and to find ways to plan for, apply to and pay for college, go to www.whatnextillinois.org

When considering college options, try not to rule out any college simply because of cost. Upon completing the financial aid application process, the financial aid administrators at the colleges that you are considering will "package" all available financial aid options and send them to you for consideration.

Q: What does it cost?

The COST OF ATTENDANCE is an estimate of expenses usually incurred by students attending a college.

The EXPECTED FAMILY CONTRIBUTION (EFC) is derived from information reported on the Free Application for Federal Student Aid (FAFSA). It is a family's expected ability over an academic year to absorb some of the educational costs. The financial aid office will use it to distribute need-based financial aid funds.

The difference between the Cost of Attendance and the Expected Family Contribution is the student's TOTAL FINANCIAL NEED.

Q: How is your financial need being met?

Students will receive FINANCIAL AID AWARD LETTERS – also referred to as OFFERS or PACKAGES – from the colleges. These letters will outline the aid that each college can offer and may include any or all of the financial aid programs listed here. It is recommended that students and parents review award letters carefully, ask questions, and meet deadlines.

Q: Was your financial need met?

| | | | | |
|--|--|---|----|----|
| Name of College: | | | | |
| What is the cost of attendance? | | | | |
| Tuition & Fees | | | | |
| Room & Board | + | + | + | |
| Books & Supplies | + | + | + | |
| Transportation Expenses | + | + | + | |
| Miscellaneous Expenses | + | + | + | |
| Step 1 TOTAL COST OF ATTENDANCE (COA) | = | = | = | |
| What is your financial need? | | | | |
| TOTAL COST OF ATTENDANCE (COA) | | | | |
| Step 2 EXPECTED FAMILY CONTRIBUTION (EFC) | - | - | - | |
| Step 3 TOTAL FINANCIAL NEED | = | = | = | |
| Financial Aid Sources | | How will your financial need be met? | | |
| | Federal Pell Grant | | | |
| | Federal Supplemental Educational Opportunity Grant (FSEOG) | + | + | + |
| | Monetary Award Program (MAP) | + | + | + |
| | Other | + | + | + |
| College Grants & Scholarships | | + | + | + |
| Other Grants & Scholarships | | + | + | + |
| Total Gift Aid | | = | = | = |
| Federal Work-Study | | + | + | + |
| Student Loans | Federal Subsidized Stafford | + | + | + |
| | Federal Unsubsidized Stafford | | | |
| | Federal Perkins | | | |
| | Alternative Loan | | | |
| Parent Loans/PLUS | | + | + | + |
| Step 4 TOTAL FINANCIAL AID OFFER | | = | = | = |
| What is your out-of-pocket cost? | | \$ | \$ | \$ |
| Cost of Attendance (Step 1) – Total Financial Aid Offer (Step 4) | | | | |

This information was compiled from the following resources...



Illinois Student Assistance Commission
(800-899-ISAC (4722))
collegezone.com



U.S Department of Education
1-800 4 FED AID
www.FederalStudentAid.gov

LADDER^{up}
FINANCIAL LIBERATION

Ladder Up
(312) 458-9105
lift@goladderup.org

Need More Resources?

www.college.gov ---- The Department of Education College Website

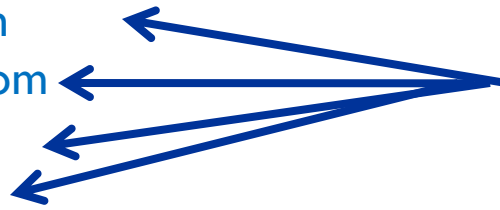
www.myplan.gov ---- Information about careers and salaries

www.chegg.com

www.amazon.com

www.ebay.com

www.half.com



Buy used textbooks online!

www.scholarships.com ---- Scholarship matching site

www.cappex.com ---- Scholarship matching site

www.FAFSA.ed.gov ---- to fill out your FAFSA