



**Kiplinger's** PERSONAL FINANCE

**SallieMae**<sup>®</sup>  
Champions for Higher Education.<sup>®</sup>

## **BORROW SMART**

### Kiplinger's No-Nonsense Guide to Understanding Student Loans

College graduates typically earn \$1 million more than high school graduates in the course of their lifetimes. So there is no doubt that college may be one of the best investments you'll ever make for yourself or your child. Still, knowing how to pay for it can be daunting. Whether you are a parent planning your child's future education, a new high school graduate, or a returning college student, you can plan now for the best way to pay college costs.

According to the College Board, the average cost of a four-year public college in 2008-2009 was \$14,333 and the average cost of a four-year private college was \$34,132. One-third of all college graduates finish with no debt. The two-thirds who borrowed finished school with an average of \$19,200 in student loans.

If savings, scholarships, grants, and current income won't cover your educational costs then student loans can be an option. But before you borrow, learn how to "borrow smart"!

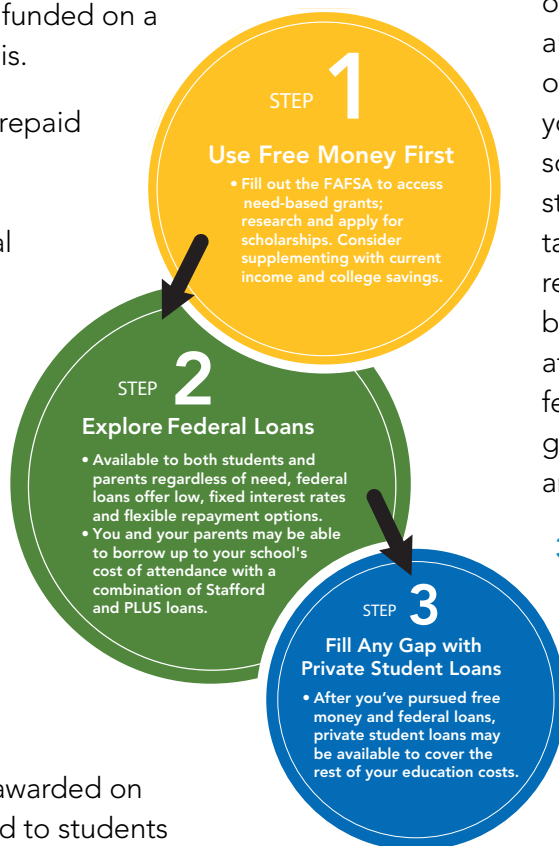
#### **Kiplinger's No-Nonsense Tips**

- Discuss as an entire family how you will pay for college. How much can you afford? Where will the money come from? What kind of college should you choose?
- Consider an in-state public university to keep down costs. Or, start at a community college and then transfer to a four-year university.
- Use your current income—both parents' and student's.
- Ask grandparents for help.
- It's never too early or too late to start saving. Consider tax-advantaged 529 college savings plans and Coverdell savings accounts.
- Even saving as little as \$50 per month when you or your child starts high school will let you accumulate nearly \$3,000 in time for college.
- Use reward programs like Upromise<sup>®</sup> or BabyMint<sup>®</sup> to help you save.
- If you still need more, a student loan may be your best solution. But be sure to borrow smart.
- While other options include borrowing against home equity or withdrawals from retirement accounts, you should remember: You can always take out a loan for education, but you can't take out a loan to pay for retirement.

Sallie Mae created the 1-2-3 Approach to Paying for College. This approach helps families pursue financing options in the most beneficial order. **FIRST**, look for FREE money in the form of grants, scholarships, etc. Also, check out Upromise and 529 plans to help you save money for college costs. It's never too late to save! **SECOND**, fully explore federal loans. **THIRD**, fill the gap with private student loans.

## 1) LOOK FOR FREE MONEY AND WORK STUDY

- A. Applying for Financial Aid: All students seeking aid from the federal government must complete the Free Application for Federal Student Aid (FAFSA). You can complete a FAFSA online at [www.fafsa.ed.gov](http://www.fafsa.ed.gov) or pick up a paper FAFSA from your high school guidance office, college financial aid office, or library. Complete the FAFSA as soon as possible after January 1 to ensure the greatest access to available aid. Be sure to follow special application deadlines for your specific state. Some programs are funded on a first-come, first-served basis.
- B. Grants do not need to be repaid and are typically awarded based on financial need. Three of the largest federal grant programs are the Federal Pell Grant, the Federal Supplemental Educational Opportunity Grant (FSEOG), and the Academic Competitive Grant (ACG). Additional grants are awarded by the federal and state governments, colleges, and independent organizations.
- C. Scholarships are typically awarded on an annual basis and offered to students for a variety of reasons, including academic achievement, financial need, community involvement, organizational membership, and ethnicity. While the federal and state governments award some scholarships, the majority of funds are offered by private organizations. Scholarships do not need to be repaid.
- D. Work-Study programs, offered by the federal and state governments as well as individual schools, provide part-time jobs both on and off campus, enabling students to earn funds, which can be paid toward their educational expenses.



## 2) CONSIDER FEDERAL STUDENT LOANS

The data you provide on the FAFSA determines your Expected Family Contribution (EFC), the amount you and your family are expected to contribute toward your college expenses. Generally, your aid eligibility is equal to the difference between your EFC and the total cost of education.

After applying for financial aid, the schools at which you have been accepted will present you with a financial aid package. An award letter typically outlines the total cost of attendance along with the types and amounts of aid the school is offering to help you cover the expense, including scholarships, grants, loans, and work study. If loans are part of the package, take the time to determine whether the repayment amounts will be reasonable based on the salary you hope to earn after you complete school. Consider federal student loans first, which generally offer lower fixed interest rates and flexible repayment options.

## 3) FILL THE GAP WITH PRIVATE STUDENT LOANS

After you've pursued free and federal money, credit-based private loans can help cover the rest of your college costs. Securing a creditworthy cosigner can reduce your interest rate.

Due to the rising cost of higher education, a majority of families rely on loan aid to cover a portion of their education expenses. In academic year 2007-2008, loans made up 41% of the federal financial aid awarded to undergraduate students and families. Education loans come in a variety of unique formats.

**The following guide outlines borrowing options for undergraduate students and their families.**

Program	Federal Perkins Loan	Federal Stafford Loan	Federal Parent PLUS Loan	Private Loan
<b>Description</b>	A low-interest loan for financially needy students that is funded by the federal government and administered by the school.	A low-interest loan, available to most students, funded by the federal government, a financial institution, or the college.	A low-interest loan for parents of undergraduate, dependent students, funded by the federal government or a financial institution.	A loan made available to students or their parents by banks or other education lenders.
<b>Eligibility</b>	U.S. citizens or permanent residents, with extreme financial need, enrolled at least part time in a college program.	U.S. citizens or permanent residents enrolled at least half time in a college program.  Subsidized loans are made to students with demonstrated financial need.	Parents of U.S. citizens or permanent residents who are enrolled at least half time in an undergraduate program.  No collateral or income requirements.	Eligibility varies by lender. The borrower is typically the student. In most cases, the student must be enrolled at least half time. Lenders usually conduct a credit check and usually require proof of income.
<b>Amount Available</b>	Undergraduate: \$4,000 per year.	<b>Dependent Students:</b> Freshman \$5,500/yr Sophomore \$6,500/yr Jr/Sr \$7,500/yr  <b>Independent Students:</b> Freshman \$9,500/yr Sophomore \$10,500/yr Jr/Sr \$12,500/yr  <b>Undergraduate Lifetime Limit:</b> Dependent \$31,000 Independent \$57,500  Note: Students qualifying for subsidized loans have additional limits.	Up to the total cost of the student's education less other aid received as determined by the school.	Varies based on program. Most allow students to borrow up to the cost of education less other financial aid received as determined by the school.
<b>Interest Rate</b>	5% fixed.	<b>Undergraduate Unsubsidized:</b> 6.8% fixed.  <b>Undergraduate Subsidized:</b> First disbursement in the following AY: 2008-2009 = 6.0% 2009-2010 = 5.6% 2010-2011 = 4.5% 2011-2012 = 3.4% (all rates are fixed)	8.5% fixed.	Varies based on program. Rates are typically variable and indexed to either the Prime Rate or LIBOR.
<b>Origination/ Repayment/ Default Fees</b>	None.	Origination fee: First disbursement in the following AY: 2008-2009 = 1.0% 2009-2010 = 0.5% No fee on or after July 1, 2010 Default fee: 1.0%.	Origination fee: 3%. Default fee: 1.0%.	Varies based on program. Fees may be assessed both at disbursement and when the loan enters repayment.
<b>Repayment Begins</b>	9 months after the student graduates or leaves school.	6 months after the student graduates or drops to less than half-time attendance.	Parents may opt to begin repayment 60 days after loan disbursement or postpone payments (interest accrues) until 6 months after student graduates or drops below half-time enrollment.	Varies based on program. A new model of private loan requires interest-only payments while in school and during a 6-month separation period after the student graduates or drops below half-time enrollment.
<b>Repayment Period</b>	10 years.	Generally up to 10 years.	Generally up to 10 years.	Varies based on program.

Note: Information on Stafford and PLUS loans reflects changes in the law effective July 1, 2008.

**Borrow Smart!** Borrow only what you really need, and keep in mind that you may have to borrow each year until graduation. Borrow responsibly now, and you'll thank yourself later.

## Family Discussion Guide

**College can be a family effort, so it is important to talk about it together. Ask:**

- What is important to us about the college environment—public or private, nearby or out of state, large or small campus?
- For parents: what is our ability to contribute now and in the future as more children may go to college? What have we been able to save, and how much current income can we tap?
- For students: what is my potential earning power during summers or working part-time on campus?
- What kinds of free financial aid can we likely expect based on academic performance and other factors?
- Are there additional scholarships to research and apply for?
- What are the deadlines for financial aid applications in our state or at the schools under consideration?
- For students: what starting salary can I likely expect upon graduation given current career interests?
- If considering a student loan, am I willing to commit to the estimated monthly repayment required?
- What lenders are recommended by my schools of choice? Are there other trusted companies offering me alternatives? Comparing carefully, which lender offers the best package?



**VIDEO:** Check out the free 24-minute video, “Borrow Smart, Kiplinger’s No-Nonsense Guide to Student Loans,” available at [www.kiplinger.com](http://www.kiplinger.com) or [www.salliemae.com/kiplinger](http://www.salliemae.com/kiplinger).

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