

Gap Financing Options

PASFAA SPRING TRAINING WEST

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1-2-3 Approach to Paying for College

- 1 Start with money you do not have to repay.** This can include scholarships, grants and work study.
- 2 Explore federal student loans.** Apply by completing the FAFSA.
- 3 Consider filling in the gap with responsible private education loan or Federal PLUS loan.**

Scholarships Resources

- Private Resources

- AT&T Labs Fellowship Program
- Coca-Cola Scholarships
- Exxon Mobil Scholarship
- General Electric Foundation Scholarships
- KFC Scholarships
- Ronald McDonald House Charities Scholarships
- Scholarship America
- Target Scholarships
- Wal-Mart Scholarships

- Examples of Free Search Engines

- Scholarship Search by Sallie Mae® provides free access to more than 5 million scholarships worth up to \$24 billion
 - SallieMae.com/ScholarshipSearch
- Fastweb features over 1.5 million scholarships worth up to \$3.4 billion
 - Fastweb.com/college-scholarships
- Big Future by the College Board offers scholarships, other financial aid and internships from more than 2,200 programs, totaling nearly \$6 billion
 - bigfuture.collegeboard.org/scholarship-search

Parent or Student Income: Tuition Payment Plans

- Most colleges and universities offer tuition payment plans
- Allows parents and students to pay their tuition in manageable monthly payments using their income
- Tuition payment plans help attract and retain students by giving them an additional funding solution
- Provides an interest free funding option

Federal Loans for Undergraduate and Graduate Students

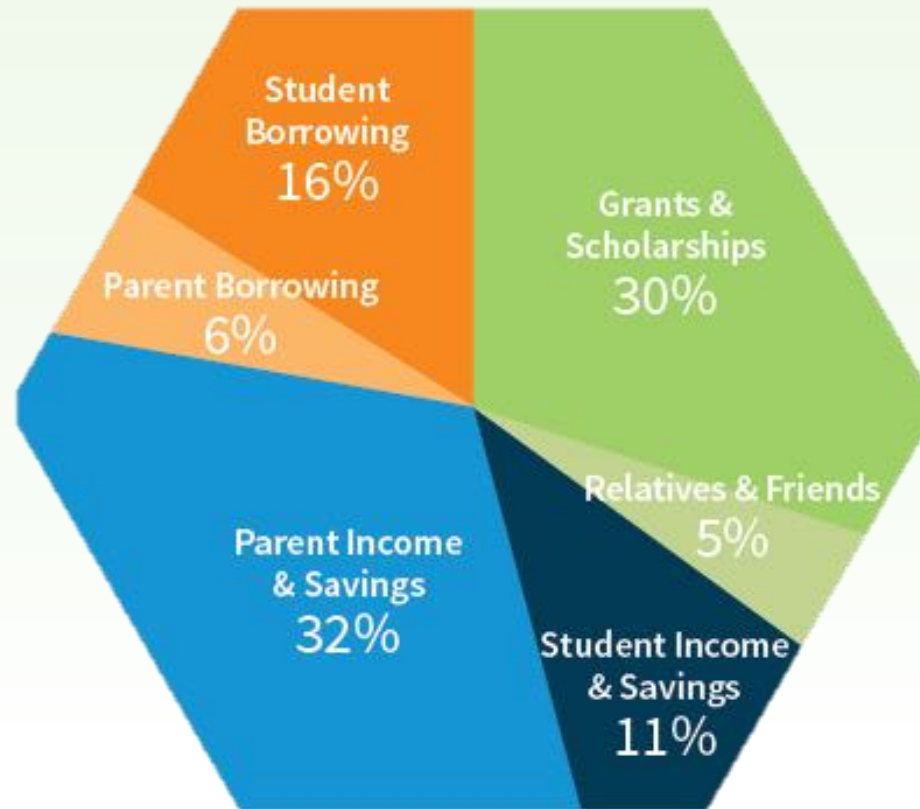
- Direct Subsidized and Unsubsidized Loans
 - Subsidized → The U.S. Department of Education pays the interest:
 - While the student is in school and during the 6 month grace period
 - Interest Rates: 4.29% for loans first disbursed on or after July 1, 2015 through June 30, 2016
 - Origination Fee: 1.068% for loans first disbursed on or after October 1, 2015 through September 30, 2016
 - Unsubsidized → The student borrower is responsible for:
 - Paying the interest on an Unsubsidized Loan during all periods. If they choose *not* to pay the interest while they are in school and during grace, deferment, or forbearance periods, the interest will accumulate and will be added to the principal amount of the loan (*capitalized*).
 - Interest Rates: 5.84% fixed for loans first disbursed on or after July 1, 2015 through June 30, 2016
 - Origination Fee: 1.068% for loans first disbursed on or after October 1, 2015 through September 30, 2016

(Note: subsidized loans are only available for undergraduate students)

(Note: unsubsidized loans are available for both undergraduate and graduate students)

Distribution of resources used to pay for college

How the Typical Family Pays for College, Average Share from Each Source 2014-15



Source: How America Pays for College Study - 2015

Commonly Used Gap Financing Tools

- 401 (k) Plans
- Long-Term Investments
- Home Equity Loans/Lines of Credit
- Credit Cards
- Federal PLUS Loans
- Private Parent Loans
- Private Student Loans

401 (k) Plans

Even though they are often viewed as having risks per articles in the media, parents still dip into their retirement funds to help pay for college

- Withdrawals from 401 (k) plans can be worse than loans, but both can significantly reduce retirement income
 - Pros: Easy to access funds, no credit check or lengthy application process
 - Cons: Double taxation, extra penalty for early withdrawals; lost investment growth = reduced retirement income



Rule of Thumb: You can borrow for college, but you can't borrow for retirement!

Long-Term Investments (Mutual Funds, Stock, Bonds)

Instead of borrowing, pulling funds out of investments is another option parents leverage to pay for college

- As with a 401 (k), parents control the use of funds
- Depending on economic circumstances, investments may be sold at a loss
- Some families intend long-term investments to supplement retirement income in the future
- Lost future investment growth
- Parents may incur tax implications when tapping into these types of investments

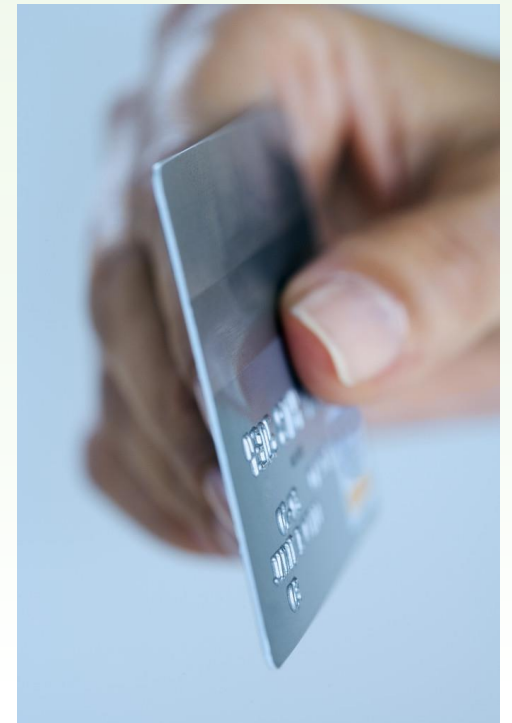
Home Equity Loans or Lines of Credit

- Home equity loans have tax benefits
- Parents also like that they are in control of the funds, not the student
- Foreclosure risk if financial situation changes drastically, such as job loss
- May need equity for future home improvements/repairs
- If you sell your home, you will have to pay back the loan
- Closing costs and other fees



Credit Cards

- Credit cards are probably the most expensive way to help pay for college
 - Interest compounds monthly
 - Special “intro-rate” offers are “limited time”
- Funds are easy to access, particularly when unexpected expenses come up (food/meal plan, books, laptop...)
- Credit cards also have a limit—using the full credit limit will reflect on credit reports
- Many schools assess a fee for paying with a credit card



Federal PLUS Loans for Parents

- PLUS Loan for Parents
 - Interest Rates: 6.84% fixed for loans first disbursed on or after July 1, 2015 through June 30, 2016
 - Origination Fee: 4.272% for loans first disbursed on or after October 1, 2015 through September 30, 2016
- PLUS Loans are taken out by the parent and can cover the entire financing gap up to 100% of the school certified cost of attendance
- Parents can request deferment of payments while in school
- Eligible for graduated and extended repayment options, federal consolidation, and some public service loan forgiveness options.
- Credit history is what is considered. Credit requirements do not include ability to repay verification nor a credit score evaluation.
- There is no cosigner release option available

Direct PLUS Loan

Federal Student Aid
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Federal PLUS Loans for Graduate Students

- PLUS Loan for Graduate and Professional Students
 - Interest Rates: 6.84% fixed for loans first disbursed on or after July 1, 2015 through June 30, 2016
 - Origination Fee: 4.272% for loans first disbursed on or after October 1, 2015 through September 30, 2016
- Grad PLUS Loans can cover the entire financing gap up to 100% of the school certified cost of attendance
- Graduates and Professional borrowers can request deferment of payments while in school
- Eligible for graduated and extended repayment options, repayment based on income earned, federal consolidation, and public service loan forgiveness options.
- Credit history is what is considered. Credit requirements do not include ability to repay verification nor a credit score evaluation.
- There is no cosigner release option available

Direct PLUS Loan

Federal Student Aid
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Private Parent Loans

- Are a funding option that allows creditworthy individuals to help a student achieve their education goals. With a private parent loan, the parent or another credit worthy individual is the primary borrowers. This allows the borrower to help a student achieve their education goals without any additional burden for the student
- Borrowers may be able to add a cosigner if needed when applying
- Similar to Federal PLUS and Private Student Loans, this loan also covers up to 100% of the school certified cost of attendance
- Most lenders offer zero fees
- Repayment typically begins immediately. Some lenders offer borrowers the ability make interest only payments while the student is in school
- Terms and costs vary widely between lenders

Private Student Loans

- The student is the primary borrower on a private student loan. Families can share the responsibility with the student when a creditworthy individual cosigns a private student loan.
- May help a student build credit – especially if scheduled to make payments while in school
- Covers up to 100% of the school certified cost of attendance
- Most lenders offer zero fees
- There is a cosigner release option available
- Some lenders offer the option to defer payments while student is in school
- Terms and costs vary widely between lenders

Weighing Repayment Options on Private Student Loans

Repayment Options (will vary depending on the loan program and lender)

- In school payments may:
 - help build credit if a borrower is making scheduled monthly payments on time
 - reduce capitalized interest (this is the interest added to a loan's principal balance)
 - lower the total loan cost
- Deferred payments may:
 - allow for more flexibility while in school
 - increase the total loan cost due to capitalized interest

EXAMPLE: \$10,000 loan, 4 years in school, 10-year term, variable interest rate

<u>In-School Repayment Option</u>	<u>Interest Rate</u>	<u>In-School Monthly Payment</u>	<u>Post-School Payment</u>	<u>Post School Payment Terms (months)</u>	<u>Total Amount Paid</u>
Deferred Repayment Option	8.25%	\$0	\$146.91	144	\$21,113.68
Interest Repayment Option	7.25%	\$56.88	\$152.59	84	\$15,761.09

Side-by-Side Comparison

	Federal PLUS Loan for Parents	Federal PLUS Loan for Graduate Students	Private Student Loans	Private Parent Loans
Issuer	Federal government	Federal government	Financial institutions, such as banks or credit unions	Financial institutions such as banks
Primary Borrower	Parent	Student	Student and cosigner (if applicable)	Parent or other eligible non-student individual
Approval requirements	Parent or endorser must not have an adverse credit history	Student or endorser must not have an adverse credit history	Generally based on the creditworthiness of the borrower and/or cosigner	Generally based on the creditworthiness of the borrower and/or cosigner
Require FAFSA	Yes	Yes	No. Unless required by the school	No. Unless required by the school
Choice of interest rates	Fixed rate only	Fixed rate only	In many cases, both variable and fixed rates are available	In many cases, both variable and fixed rates are available
Fees	4.272% for loans first disbursed on or after 10/1/15 and before 10/1/16.	4.272% for loans first disbursed on or after 10/1/15 and before 10/1/16.	Varies by lender – most offer 0%	Varies by lender – most offer 0%
Cosigner Release	No, the parent, and any endorser, has a commitment to repay the loan for the life of the loan	No, the student, and any endorser, has a commitment to repay the loan for the life of the loan	Many lenders provide a cosigner release option where a student can apply to release the cosigner after he or she graduates, makes a specified number of on-time payments, and meets underwriting requirements	Varies by lender. Check for availability
Minimum enrollment status	At least half time	At least half time	Varies by lender. Some offer loans to students who are attending school less than half time.	Varies by lender. Some offer loans to students who are attending school less than half time.

Key Things to Consider When Shopping for Education Loans

How much should I borrow?

Families should consider their personal financial situation.

Student borrowers should factor in their expected annual starting salary and total debt load, when evaluating the amount of private loans to borrow. Guidance from the College Board suggests that new graduate's monthly student loan payments should be no more than 10% to 15% of their starting monthly salary.

Expected Starting Salary	Guidance on borrowed \$'s
\$4,000/month (pre-tax)	Monthly payment = \$400 or less

Interest rate : fixed or variable

- Fixed Rate = Stability, but often more expensive
- Variable Rate = Can be cheaper, especially short term

Key Things to Consider When Shopping for Education Loans

Benefit programs offered by the lender

- Rewards for certain activities
 - Paying via ACH or for paying on-time
 - Strong academic performance or graduating from school

Other features of the loan

- Repayment term
- Cosigner release
- Death & disability waivers

Evaluate Your Options

It's better to have more options to pay for school, rather than less. By weighing the features of each, you can find the option that is best for you.

- **Lower Rate.** Highly-qualified applicants, who expect to enter the workforce immediately after graduation and repay their student loans quickly, may be better served by exploring private student loans that may offer lower rates than federal student loans.
- **Payment Flexibility.** Federal loan programs offer solutions that enable borrowers to extend their term or base their payments on income and may provide loan forgiveness. Many private education loans offer flexibility in making payments as well. Do your research to see which programs best suit your needs as some options may increase the cost of the loan.
- **Save Money.** Choosing a loan that encourages interest payments while in school can help save money and avoid unpaid interest being added to their loan's principal amount.
- **Credit Cards.** Credit cards may seem to offer quick access to funds to pay for a graduate education. However, they're not designed specifically for education financing and are often the more expensive and less flexible option compared to a student loan.
- **Financing Options.** The best choice for financing an education may be a combination of affordable financing options, such as federal and private education loans.

Conclusion

- Many financing vehicles are available to families
- While there is no “one-size-fits-all” solution, families should follow the “1-2-3” approach:
 - Start with money you do not have to repay. This can include scholarships, grants and work study.
 - Savings and payment plans are also included.
 - Explore federal student loans. Apply by completing the FAFSA.
 - Consider filling in the gap with a responsible private education loan or Federal PLUS loan.
- Some tools families are using have more disadvantages than advantages and should be carefully analyzed before pursuing
- When considering a private loan families should research all options first



Tip: Credit scores during rate shopping - Looking for student loans may cause multiple lenders to request your credit report, even though you are only looking for one loan. To compensate for this, FICO Scores ignore student loan inquiries made in the 30 days prior to scoring. So, if you find a loan within 30 days, the inquiries won't affect your scores while you're rate shopping. FICO Scores do look on your credit report for student loan inquiries older than 30 days. Visit myfico.com to learn more.

Questions?

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