

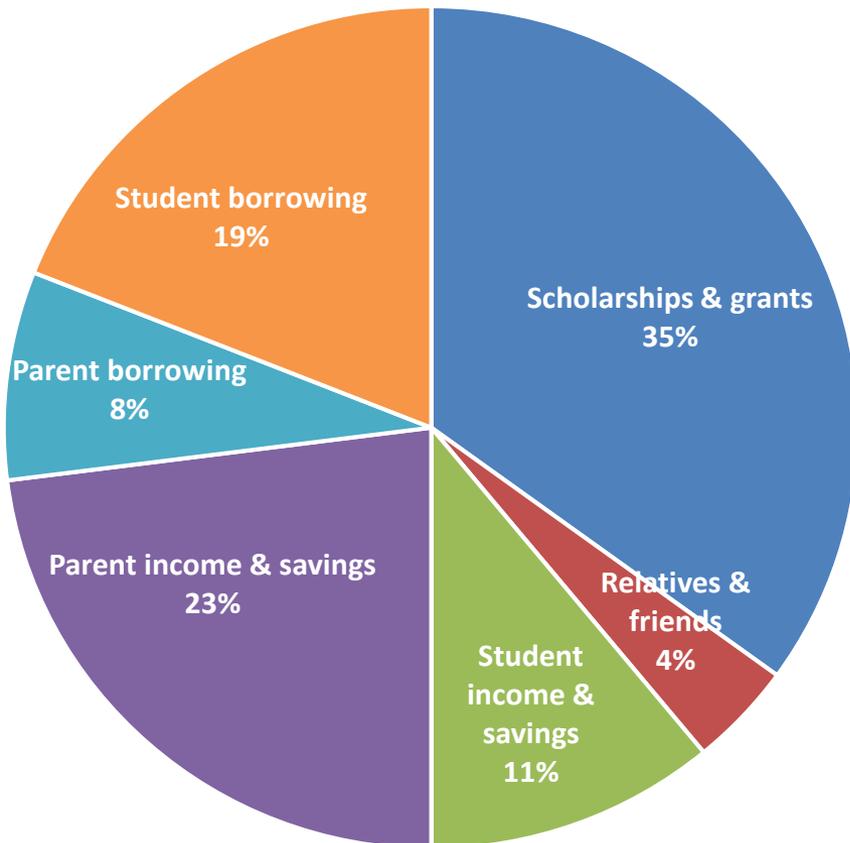
PAYING FOR COLLEGE



Speakers: Kelly Savoie
Date July 2017



How the Typical Family Pays for College, Funding Source Share 2017



- Grants and scholarships constitute the largest portion of funding used to pay for college
- Family assets—both student and parent—paid two-fifths of costs
- Borrowed money covered one-fifth of costs

For the complete 2017 report, visit salliemae.com/howamericapaysforcollege

Source: Sallie Mae and Ipsos, *How America Pays for College 2017*

Applications to Pay for College

- **FAFSA** – Free Application for Federal Student Aid
 - www.FAFSA.gov - ALWAYS absolutely FREE
 - Used by ALL Schools
 - Opens on October 1
 - AY 2019-20 families will use their 2017 tax return
- **CSS Profile**
 - Required by some schools to apply for institutional aid
- **Institutional Scholarship Application**
 - Required by some schools; deadlines vary

Financial Aid True and False

- “We make too much money, so my child won’t qualify for aid”
- “I need to file my taxes before completing the FAFSA”
- “My grades aren’t good enough for me to get aid”
- “I only have to fill out the FAFSA once”

Frequent FAFSA Errors

- **Social Security Numbers**
- Divorced/widowed/remarried parental information
- Income earned by parents/stepparents
- Untaxed income
- U.S. income taxes paid
- Household size
- Number of household members in college
- Real estate and investment net worth

FSA ID

FSA ID is a username and password to login to US Dept of Ed websites

- It is your electronic signature

Important Tips:

-Student and Parent must have different FSA IDs

-Student and parent must use different e-mail addresses when creating FSA ID

Security is top priority

Financial Aid Terms

- **Cost of Attendance (COA)** – The estimated cost of tuition, fees, room, board, books, transportation and personal expenses at each school; includes indirect costs
- **Expected Family Contribution (EFC)** – A number generated by the **FAFSA** based on the family's size, income and assets that is used to determine eligibility
- **Financial Need** – The difference between the school's COA and your EFC

Caution:

- ***Your EFC is not the amount you will pay.***
- ***Financial aid may not cover your financial need***

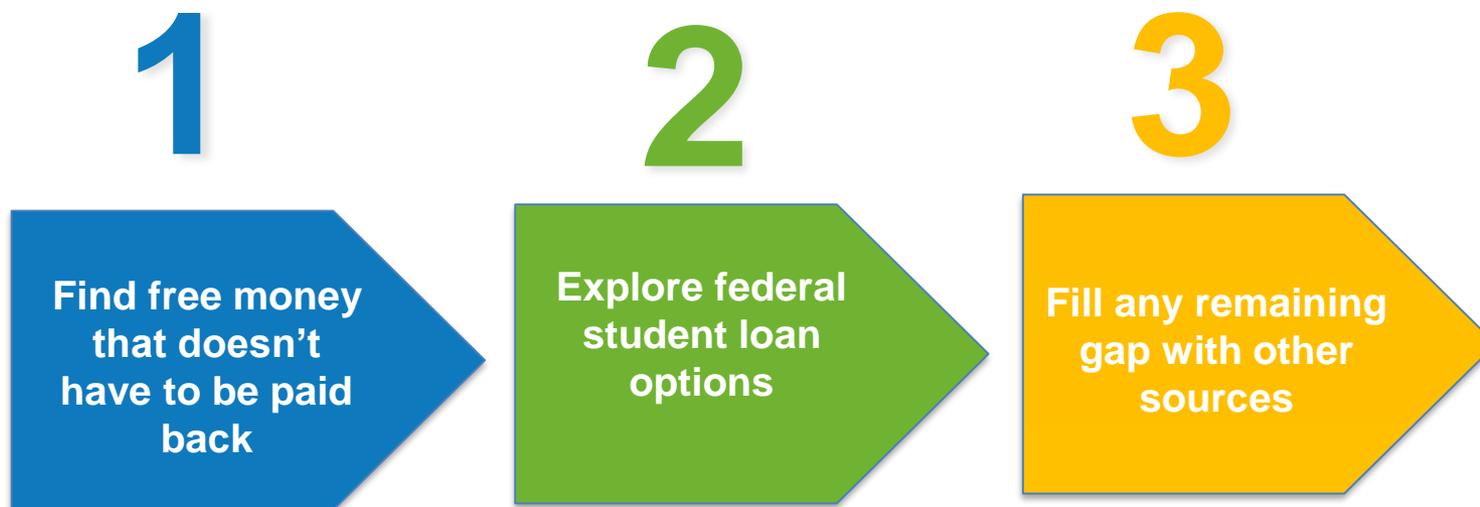
*****Net Price Calculator***

Financial Need

If your Expected Family Contribution (EFC) is 20,000, your need will be different at each school.

	School A	School B	School C
Cost of Attendance	\$60,000	\$30,000	\$15,000
Expected Family Contribution	20,000	20,000	20,000
Financial Need	\$40,000	\$10,000	\$0

Sallie Mae Recommends the 1-2-3 Approach



**1. FIND FREE MONEY
THAT DOESN'T
HAVE TO BE PAID
BACK**

Find Free Money for College: Scholarships



Scholarships are awarded for a variety of reasons:

- Academic achievement
- Financial need
- Community involvement
- Organization membership
- Sports
- Talent or skill
- Leadership/School activities
- Ethnicity
- Religious affiliation
- Parent affiliation with work, club or activity

Scholarships Resources

✔ Private Resources

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

✔ Examples of Free Search Engines

- Sallie Mae® Scholarship Search 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

Scholarships Resources

Other Resources

Students and families should also check with their

- Parent's Employers
- Church or Synagogue
- Civic Clubs and organizations
- High School Counselors

Promoting Scholarships to Your Students

- ✔ Add scholarship information and links to the counseling section of your website
- ✔ Host a scholarships brown bag lunch
 - Invite previous scholarship winners to talk about their search and application experiences
- ✔ Host a scholarship essay writing workshop
- ✔ Partner with community-based organizations to send mailings or emails about scholarships
- ✔ Leverage school communications regularly sent to students
- ✔ Publish a scholarship article in the school newspaper

Federal Grants

Need-based; either state or federal and **requires** the submission of the U.S. Department of Education's Free Application for Federal Student Aid (FAFSA).

- Pell Grants: For students pursuing their first undergraduate degree; awarded based solely on financial need 2018-2019 \$6095 maximum
- Teach Grants: For students planning to teach in a high-need field, or in low-income area; you commit for period of time Maximum \$3736
 - If do no complete all obligations converts to Direct Unsubsidized loan
- Federal Supplemental Education Opportunity Grants:
 - Supplements Pell Grant
 - Limited funding; based on deadline
 - Amounts will vary by school

Employment

Federal Work-Study

- Requires **FAFSA**; based on need
- Not paid in lump sum; based on hours worked

Institutional Employment

- Does not require **FAFSA**
- Depends on the workforce needs of the school

Cooperative Education

- Student alternates semesters of coursework with semesters of full-time employment in a field related to major



Parent or Student Income: Tuition Payment Plans

- Most schools offer tuition payment plans

Pro

- Pay tuition in manageable monthly payments using household income
- Can provide an interest free funding option, but some have fees or finance char.
- Tuition payment plans help attract and retain students by giving them an additional funding option

Con

- Some plans have fees or other charges
- May incur penalties for late payments

2. EXPLORE FEDERAL STUDENT LOAN OPTIONS

Federal Direct Loan

- Student is borrower
- Maximum dependent freshman loan is \$5,500*
- Can be partially subsidized
- Interest rates for 2018-19 loans:
 - 5.05%* for subsidized (no interest if in school half time)
 - 5.05%* for unsubsidized (interest accrues during school or borrower can elect to make interest-only payments)

Both have a 1.069% fee

- Student must submit **FAFSA**, complete **Entrance Counseling** and sign a **Master Promissory Note**
- Six-month grace period before repayment

*<https://studentaid.ed.gov/sa/types/loans/interest-rates.gov>

Federal Direct Loan

Annual Loan Limits		
	Dependent Student	Independent Student
Freshman	\$5,500	\$9,500
Sophomore	\$6,500	\$10,500
Junior	\$7,500	\$12,500
Senior	\$7,500	\$12,500
Graduate		\$20,500

Aggregate (Total) Loan Limits		
	Dependent Student	Independent Student
Undergraduate	\$31,000	\$57,500
Graduate		\$138,500

**3. FILL ANY
REMAINING GAP
WITH OTHER
SOURCES**

Commonly Used Gap Financing Tools

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

Tapping 401(k) Plans

Often addressed in the media as risky, but parents still dip into their retirement funds to help pay for college

Pro

- Easy access
- No credit check or lengthy application process

Con

- Investments may be sold at a loss
- Loss of future investment growth
- Double taxation
- Early withdrawal penalties



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

Source: This information was gathered 3/2018 from Fidelity and Merrill Lynch web sites and https://olui2.fs.ml.com/Publish/Content/application/pdf/GWMOL/Loans_and-Withdrawals.pdf <https://www.fidelity.com/viewpoints/personal-finance/college-tuition-bill> and <https://www.fidelity.com/learning-center/personal-finance/college-planning/using-retirement-savings>

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

Pulling funds out of investments is another option parents leverage to pay for college without borrowing

- Parents control the use of funds
- Investments may be sold at a loss
- Some families intend long-term investments to supplement retirement income
- Lost future investment growth
- Tax Implications

Source: This information was gathered 3/2018 from <http://www.finaid.org/savings/strategies.phtml> and <http://www.finaid.org/savings/retirementplans.phtml>

Home Equity Loans or Lines of Credit

Pros

- Easy access if home equity is available
- ~~Tax benefits~~
- Parents control the funds



Cons

- Risk losing your home, if you default on your home equity loan
- Foreclosure risk if financial situation changes drastically
- May need the the equity for future home improvements/repairs
- If you sell the home, you must repay the home equity loan
- Closing costs and other fees

Source: Information gathered 9/2017 <https://www.fidelity.com/my-money/6-ways-not-to-use-your-home-equity-line-of-credit>

Federal Parent PLUS Loan

- Parent is borrower
- Maximum loan is up to the remaining annual cost of attendance
- Interest rate for **2018-19 loans is 7.6%** with a fee of **4.276%***
- Approval is based on absence of adverse credit
- Can be deferred (with or without interest-only payments)
- Parent must sign promissory note
- **FAFSA** is required, but not need-based aid

*<https://studentaid.ed.gov/sa/types/loans/interest-rates>

Private Student Loans

- The student is the primary borrower
- Cosigners are an option
- Loan can be shared responsibility if parent cosigns
- Student may establish/build credit
- Generally covers gap of up to 100% of the school certified cost of attendance
- Terms and costs vary widely between lenders
- Option to defer payments while student is in school

Note: for parents who want to take responsibility for financing their child's education, a private parent loan may be a good option.

Private Student Loans

Understanding gap financing options

The Federal Parent PLUS Loan, private student loans, and private parent loans

Many families are considering financing their student's education with either a Federal Parent PLUS Loan or a private education loan. This comparison chart will help you understand the features and benefits of each type of loan.

Interest rates and fees for private loans vary between lenders and are generally based on the credit of the individual borrower and cosigner; however, other factors may also be considered. We recommend that you research private loans and compare your options before deciding which type of loan is best for you.

	Federal PLUS Loan for Parents ¹	School-certified private student loan ²	Private parent loan ²
Primary borrower	Parent	Student	Parent or other eligible non-student individual; however, other factors may also be considered.
Credit check required	Yes. Applicant or endorser cannot have an adverse credit history.	Yes. Loan approval and pricing are generally based on creditworthiness. Lenders may also consider other factors.	Yes. Loan approval and pricing are generally based on creditworthiness. Lenders may also consider other factors.
Cosigner requirement	No, but if a parent has adverse credit history, an endorser may be required.	No, but if you're a student with little or no credit history, it may be difficult for you to qualify for a loan without a creditworthy cosigner.	No, but if the primary borrower is not eligible on their own some lenders may offer a cosigner option.
Cosigner/parent release option	No, parent (and any endorser) is making a commitment to repay the loan for the life of the loan.	Many lenders provide a cosigner release option where the student can apply to release the cosigner after they graduate, make a specified number of on-time payments, and meet underwriting requirements.	Varies by lender. Check for availability.
Interest rate	For loans first disbursed on or after July 1, 2018, and before July 1, 2019, the interest rate is fixed at 7.60%.	Many lenders offer both variable and fixed interest rates. Interest rates start from 3.75% to 12.99% for variable and range from 5.25% to 14.29% for fixed. Although lenders may consider multiple factors, rates are generally based on the borrower's and cosigner's creditworthiness, so those with good credit may qualify for a lower rate.	Most lenders offer a fixed interest rate. Fixed interest rates range from 5.60% to 12.99%. Some lenders may also offer variable rates. Variable interest rates range from 5.20% to 11.99%. Rates are generally based on the applicant's creditworthiness; other factors such as income and repayment term may also be considered.
Origination/disbursement fees	4.264% for loans first disbursed on or after October 1, 2017 and before October 1, 2018.	Varies by lender, most offer 0%.	Varies by lender, most offer 0%.
Minimum payment amount while the student is enrolled in school	Loans will automatically be placed in principal and interest repayment. The borrower can request to defer PLUS loan payments while the student is in school and for six months after graduation (interest continues to accrue during this time and unpaid interest is added to the loan's principal amount when the deferment period ends).	Varies by lender. Many lenders allow private loan payments to be deferred while in school (interest accrues during this time and is added to the loan's principal amount when the deferment period ends). Many lenders offer options to make interest payments during the in-school period.	Varies by lender. Some lenders allow interest payments while in school. Others may offer or require immediate principal and interest repayment.
Repayment term	10 – 25 years of principal and interest payments.	Varies by lender; typically terms of 5 – 20 years of principal and interest payments are offered.	Varies by lender; typically terms of 5 – 15 years of principal and interest payments are offered.
Payment flexibility	PLUS loans are eligible for graduated and extended repayment options, federal consolidation, and some public service loan forgiveness options.	Most lenders will work directly with the borrower to assess repayment options. Some lenders offer graduated repayment options.	Most lenders will work directly with the borrower to assess repayment options.



**Questions?
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