HOW YOU PAY FOR COLLEGE MATTERS

Debunking Student Loans
Today's Presenters

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Program Officer, Scholarships & Financial Aid Education
Today’s Agenda

By the end of this presentation, you will be able to:

- Define what are loans
- Distinguish different types and qualities of loans
- Learn how much you can borrow
- Learn how much you should borrow
- Discover resources available if you can’t pay
- Find out what happens if you don’t pay
- Plan your individual safe borrowing
PRE-ASSESSMENT
What is Financial Aid?

Money available to students in order to help pay for their education

**Types of Financial Aid**
- Scholarships
- Grants
- Loans
- Work-Study

**Comes from a variety of sources**
- Federal government
- State government
- Private sources
- Colleges and Universities
STUDENT LOANS
Four-year students from class of 2018 have average $29,200 in student debt, a record high

TIME  Americans Have So Much Debt They're Taking It to The Grave

Forbes  Student Loan Debt Statistics In 2019: A $1.5 Trillion Crisis

Half of student loan borrowers worry they’ll be in debt forever, study finds

The Washington Post  There seems to be no end to the rise in student loan debt

USA TODAY  Students graduating in these states are drowning in loan debt

CBS NEWS  Student loan debt crisis: How did we get here?
Did you know…?

Rising costs of education and decreasing financial aid translate into student loans playing an increasingly important role in financing higher education.

Higher education is an important investment, but it is accompanied with a **growing student debt burden**, approaching $1.7 trillion. And it keeps growing!
Did you know...?

Almost **one in three** borrowers that go into repayment are delinquent on student debt.

Defaulting on a loan can have catastrophic consequences that may affect borrowers' **access to employment, ability to buy a car or a house, and even withhold wages and tax returns**.

https://studentaid.gov/manage-loans/default
Important questions to think about when considering borrowing student loans

- If free aid (scholarships + grants) is not enough, how much is reasonable to borrow?
- How much interest will be added to my loans?
- What’s the additional cost of not graduating on time?
- How easy it will be to find a job in my field?
- What will my entry-level wages be?
- What will my monthly student loan payment be?
- How much will I be able to afford in the end?
Unfortunately, research shows that most students DO NOT think about these questions.
What circumstances put you at risk?

- Undeclared major
- Changing majors
- 5- or 6-year educational plan
- Academically not ready
- Working too much
- Not completing your program
- ‘Buy Now, Pay Later’ mentality
Start preparing early

- Figure out what you are looking for
- Explore, explore, explore
- Be proactive
- Challenge yourself
- Make informed decisions
- Know that you are not alone
Why is college a good investment?

1. Increase your earning potential
2. Gain job security
3. Expand your career options
4. College degree linked with better health
5. Make lasting connections
Loans ARE financial aid!

Loans come from the federal government, private and nonprofit organizations.

- Subsidized
- Unsubsidized
- Parent Plus
- Private

- Must be repaid
- Loan fees
- Interest rates
  * Accrue interest
- Repayment options
- Some opportunities for deferment and forgiveness
## Types of federal student loans

<table>
<thead>
<tr>
<th></th>
<th>Subsidized</th>
<th>Unsubsidized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Who can borrow</td>
<td>Undergraduate students with financial need</td>
<td>Undergraduates; graduate students with no financial need</td>
</tr>
<tr>
<td>Interest</td>
<td>Paid while enrolled in at least 6 credits or during grace periods</td>
<td>Starts accruing with first disbursement</td>
</tr>
<tr>
<td></td>
<td>3.73% (7/1/21 – 6/30/22)</td>
<td>3.73% (7/1/21 – 6/30/22)</td>
</tr>
<tr>
<td>Fees</td>
<td>1.057%</td>
<td>1.057%</td>
</tr>
<tr>
<td>Repayment</td>
<td>6 months after graduation or stopped being enrolled in at least 6 required</td>
<td>6 months after graduation or stopped being enrolled in at least 6 required</td>
</tr>
<tr>
<td></td>
<td>credits</td>
<td>credits.</td>
</tr>
<tr>
<td>Length of borrowing</td>
<td>Up to 150% of program length. If exceed, lose subsidy</td>
<td>Lifetime maximum amount</td>
</tr>
</tbody>
</table>
Borrowing limits

The amount that you can borrow depends on several factors:

- Dependency Status
- Class standing
- Program
- Borrowing History
- Calculated EFC (Estimated Family Contribution)
- Unmet Need = COA - EFC
## Borrowing limits

<table>
<thead>
<tr>
<th></th>
<th>FR</th>
<th>SO</th>
<th>JR</th>
<th>SR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SUB</strong></td>
<td>3500</td>
<td>4500</td>
<td>5500</td>
<td>5500</td>
</tr>
<tr>
<td>UNSUB (INDEP)</td>
<td>6000</td>
<td>6000</td>
<td>7000</td>
<td>7000</td>
</tr>
</tbody>
</table>
# How much can you get?

## Cost of Attendance

<table>
<thead>
<tr>
<th>Cost of attendance</th>
<th>$16,000</th>
<th>Tuition, books, housing, food, transportation</th>
</tr>
</thead>
</table>

## Estimated Family Contribution

<table>
<thead>
<tr>
<th>EFC</th>
<th>$1,000</th>
<th>Estimated Family Contribution</th>
</tr>
</thead>
</table>

## Financial Need

<table>
<thead>
<tr>
<th>Financial Need</th>
<th>$15,000</th>
<th>Difference between cost for one year and family’s contribution</th>
</tr>
</thead>
</table>

## Let’s look at a real-life example:

<table>
<thead>
<tr>
<th>Pell Grant</th>
<th>$5,300</th>
<th>Free money</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Washington College Grant</th>
<th>$6,600</th>
<th>Free money</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Work-Study</th>
<th>$1,500</th>
<th>Has to be earned</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Loans</th>
<th>$1,600</th>
<th>Has to be repaid</th>
</tr>
</thead>
</table>
Minimize loan burden

- Never borrow more than you need
- Budget carefully: the cost of attendance can be reduced
- Consider working more during the summer months or the school year, but do not over commit

Work vs. Loans

- How much work is too much? How much loans are too much?
- More than 15 hours per week is not recommended for full-time students

- Private loans and credit card debt are the most expensive, risky ways to borrow for college!
How much can you afford?

- Know in advance **when** you will enter repayment
- Consider likely future career, income and monthly repayment amount
- Consider impact on post-college finances, including purchasing a car or a home, starting a family, career choice and saving for retirement
- Know about temporary reducing or eliminating monthly repayment amounts:
  - Income-based repayment available for federal loans
  - Forgiveness for public service and other careers

**Take-away:** The student loan repayment calculator at:

[https://mappingyourfuture.org/paying/standardcalculator.cfm](https://mappingyourfuture.org/paying/standardcalculator.cfm)
What if you can’t pay?

Deferment
- A period during which payments are not required
- Deferment request are granted for periods of up to 3 years
- Examples include graduate school, Peace Corps, or other public service, active military duty, unemployment, and economic hardship

Forbearance
- If borrower does not qualify for deferment but still needs relief, can appeal to lender or servicer for forbearance
- Can reduce or postpone payments or extend the time for making payments
- Forbearance requests typically are granted for periods of up to 12 months
What if you don’t pay?

- Student loans must be repaid whether or not you finish your program of study
- Student loans are rarely dischargeable in bankruptcy
- Default happens after 9 months of non-payment
  - Default ruins credit score
  - Wages and even Social Security may be garnished
  - Tax refunds may be seized
  - Eligibility for other aid programs may be lost
  - Academic transcripts may be withheld
  - Federal government can file a lawsuit against the defaulter
  - Eligibility for certain state and federal jobs may be denied; professional licenses lost
- Communication with loan holder is key and may prevent default through alternative repayment arrangements
Planning your borrowing

Let’s practice looking at future jobs and their earnings to give you a sense of how much to borrow

1. Look up jobs and their earnings:
   http://www.bls.gov/ooh/a-z-index.htm

2. Calculate how much you plan to borrow:
   http://mappingyourfuture.org/paying/debtwizard/

3. Calculate your monthly payment:
   https://studentaid.gov/loan-simulator/

4. Look at specific school information:
   https://collegescorecard.ed.gov/
Western Washington University
Bellingham, WA
15,098 undergraduate students
www.edu.gov

Graduation Rate
74%
Midpoint for 4-yr Schools: 50%

Average Annual Cost
$16,529
Midpoint for 4-yr Schools: $19,202

Median Earnings
$54,976
Midpoint for 4-yr Schools: $47,976

LOOK AT SPECIFIC SCHOOL INFORMATION:
LOOK AT SPECIFIC SCHOOL INFORMATION
### Calculate your loan repayment

<table>
<thead>
<tr>
<th>Principal Amount of Loan</th>
<th>$38000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Monthly Payments</td>
<td>120</td>
</tr>
<tr>
<td>Simple Interest Rate</td>
<td>5</td>
</tr>
<tr>
<td><strong>Your Monthly Payment Will Be</strong></td>
<td><strong>$403.04</strong></td>
</tr>
<tr>
<td><strong>Your Total Interest Cost Will Be</strong></td>
<td><strong>$10365.87</strong></td>
</tr>
<tr>
<td><strong>Minimum annual salary to handle these payments:</strong></td>
<td><strong>$60457.00</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>After taxes salary:</th>
<th>$2850</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>$1200</td>
</tr>
<tr>
<td>Utilities</td>
<td>$250</td>
</tr>
<tr>
<td>Food</td>
<td>$300</td>
</tr>
<tr>
<td>Transportation</td>
<td>$400</td>
</tr>
<tr>
<td>Health</td>
<td>$200</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$100</td>
</tr>
<tr>
<td>Loans</td>
<td>$400</td>
</tr>
</tbody>
</table>

Nothing left for emergencies, savings, cost increases.

The Summer 2021 NACE Salary Survey report shows that the average starting pay for Class of 2020 graduates was 2.5% percent above the average starting salary of $53,889 for the Class of 2019 and up 8.5 percent from the Class of 2018’s final average starting salary of $50,944.  Sep 14, 2021

https://www.shrm.org/hr-topics/compensation/pages
LESSONS LEARNED

1. Make **informed** decisions
2. Be **proactive**
3. You are not alone; **we** are here to help!
POST-ASSESSMENT
Questions? Comments? Help?

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