

## 2007-2008 COLLEGE LOAN & PAYMENT OPTIONS

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### GRANTS AND SCHOLARSHIPS

**What is it?** Free money that can come from any one of 3 sources: Federal government, the State or the College itself. College funds may be either need or merit based or a combination of both. Merit based usually requires student to maintain a minimum GPA to keep the free money.

**Examples:**

- *Pell Grant:* Federal aid for low income families (EFC limit \$3,850). Automatic award up to \$4,050 a year based on FAFSA
- *SEOG Grant:* Federal money, between \$100 and \$4000 a year, that colleges can dispense at their discretion, usually to needy students.

### PERKINS LOAN

**What is it?** Best of the federally subsidized loan since no origination fee is deducted from the loans. Granted at the discretion of the college undergraduates can borrow up to \$4000 a year with a cap of \$20,000 total. These loans have a fixed interest rate of 5% and all interest is paid by Uncle Sam until repayment starts. Repayment is triggered by graduation (starts 9 months after), dropping below ½ time status or quitting college. The student has up to 10 years to repay. Student will have to sign a promissory note to receive the funds.

### STAFFORD LOAN (WILLIAM D. FORD FEDERAL DIRECT LOAN)

**What is it?** Federally subsidized loan with a 4 % origination fee deducted from the loan. (Pennsylvania is the only state agency not to charge the origination fee.) If FAFSA shows a need, the student can borrow up to \$3,500 for freshman, \$4,500 for sophomores, and \$5500 per year for juniors and seniors. No interest is charged the student until repayment begins 6 months after graduation or a drop below at least ½ time college attendance. The repayment time is 10 years but can be extended as long as 30 years. Borrowing may be through a government agency (HESSA, PHEAA, etc) or a bank affiliated with the college directly. Either ways the terms of the loan are identical. Student should apply by mid June to July 1 by signing a promissory note supplied by the FAO of the college. These promissory notes only have to be signed once prior to the freshman year. Student's will usually be required to attend a Stafford Loan counseling meeting when they arrive on campus or complete a student loan entrance counseling session at the lender's online web site.

### FEDERAL WORK STUDY

**What is it?** Need based part-time jobs on campus. All wages received are exempt from financial aid formulas, but not taxes. Before deciding to pass this up, wait to see the type and scope of the job; it may be conducive to making money while studying.

### INDIVIDUAL COLLEGE LOANS

**What is it?** Vary widely in attractiveness. Some are wonderful while some are on the edge of sleazy with credit card type interest rates. Some colleges try to pass these off as need based aid loans to unsuspecting parents. Examine terms of these types of loans very carefully.

### OUTSIDE SCHOLARSHIPS

**What is it?** These are not need-based funds. All outside scholarships are supposed to be reported to the college, but very often the college will use these funds against you by re-doing your financial aid package and subtracting these funds from the package. If possible, get scholarship funds paid directly to you or your child and bypass reporting to the college. If scholarship monies are paid directly to the college, **do not count on this as extra funds.**

## 2007-2008 FAMILY CONTRIBUTION PAYMENT IDEAS

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### COMMERCIAL BUDGETING ORGANIZATIONS

**What is it?** Provides lump sum payments to college for parents who have sufficient cash flow to pay the FC on a monthly basis over 10-12 months but lack the funds for a lump budget payment plan or affiliate with one of the more popular commercial budgeting organizations, which is usually indicated with their financial aid award or tuition bill. Once again, some of these firms are reputable – while others are not.

### PERSONAL ASSETS

**What is it?** Withdrawing cash from your assets sometimes has tax consequences; plus if you are making good interest on your assets it may be wise to consider a lower interest loan and preserve your higher interest asset (if you are not going to be qualifying for need-based financial aid). You may be able to take a loan against your retirement program or a loan against your securities (borrowing on margin). The problem with a retirement loan is pay back of the loan (plus interest) is due in full within 5 years or one suffers major penalties & tax consequences; thus you are trying to pay for college with borrowed money that you must pay back totally at the same time. Also, you are putting dollars that have already been taxed into a retirement plan – just to pay taxes again on them later.

### NON-NEED BASED LOAN

**What is it?** In general loans are available up to the total yearly cost of college minus any need based aid received. These loans must be reapplied for every year. Loans in parents' names require immediate repayment of principal and interest. Non-need based loans in the student's name enable the principal to be deferred until 6 months after they leave school while the interest is payable immediately. Deferral Government (Stafford & PLUS) and Commercial or Alternative Education loans have origination fees (some of which are ridiculously high) and require a credit check and if necessary a co-signer.

### FEDERAL LOANS

#### *PLUS (parent's loan)*

- *Loan Limits:* Up to cost of college minus any student need based aid. Work-study amount may be added to loan amount if work-study is not accepted
- *Interest Rate:* Present rate 8.5%.
- *Fees:* 4%-5% origination
- *Deadline:* Apply at least 60 days prior to school year (approx. July 1, not earlier than 90 days prior to begin college). Most colleges have a Direct Loan program and will provide paperwork.
- *Features:* Requires a credit check. IF you have adverse history (outstanding judgments; liens or history of slow pay) will require a co-signer or be able to show extenuating circumstances. Repayment over 10 years begins 60 days after final disbursement of the loan. Some lender may allow deferment of principal, but beware of changing terms.

#### *Unsubsidized Stafford (Student Loan)*

- *Loan Limits:* \$3,500 (1st year); \$4,500 (2nd year); \$5,500 (3rd year +); if you are receiving the above limits as part of your need based package, you are not eligible for an unsubsidized Stafford loan unless your parents are rejected for a PLUS loan. The loan limits are than \$4,000 (1st and 2nd year); \$5,000 (3rd year +) above the subsidized level.
- *Interest Rate:* Present rate 6.8%.
- *Fees:* 4% origination

## 2007-2008 FAMILY CONTRIBUTION PAYMENT IDEAS

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- *Deadline:* Apply at least 60 days prior to school year (approx. July 1, not earlier than 90 days prior to begin college). Most colleges have a Direct Loan program and will provide paperwork.
- *Features:* Principal deferred to 6 months after leaving school. Interest is payable while attending school or it accrues.

### TOP FIVE COMMERCIAL /ALTERNATIVE EDUCATION LOANS

#### **TERI Loan** (*The Education Resource Institute*)

*Ph:* 800-255-8374 / *website:* [www.teri.org](http://www.teri.org)

- *Limits:* Minimum of \$1,000; unlimited aggregate
- *Interest Rate:* Prime, may vary based on the lender
- *Fees:* 5%
- *Features:* Repay starts 45 days after college; up to 25 years to repay

#### **CitiAssist Loan** (*Citibank*)

*Ph:* 800-255-8374 / *website:* [www.studentloan.com](http://www.studentloan.com)

- *Limits:* \$75,000 aggregate
- *Interest Rate:* Prime + 1/2 %
- *Fees:* None
- *Features:* 12 years to repay with interest rate reduction for automatic and timely repay

#### **Signature Student loans** (*Sallie Mae*)

*Ph:* 800-695-3317 / *website:* [www.salliemae.com](http://www.salliemae.com)

- *Limits:* Minimum of \$5000; aggregate \$100,000
- *Interest Rate:* Prime, + (-.5% to 6%- depending on credit rating)
- *Fees:* 0% to 9%
- *Features:* 15-25 years to repay which may be consolidated with Stafford Loans to facilitate billing and repayment as well as interest rate reduction of 0.25% for automatic payment through bank

#### **Excel or SHARE loans** (*Nellie Mae*)

*Ph:* 800-634-9308 / *website:* [www.nelliemae.com](http://www.nelliemae.com)

- *Limits:* Minimum of \$500
- *Interest Rate:* Choice of monthly or yearly variable of Prime + (max +2)
- *Fees:* 5%
- *Features:* 4-20 years to repay

#### **Campus Door Loan** (*Collegiate Funding Services*)

*Ph:* 800-786-0002 / *website:* [www.campusdoor.com](http://www.campusdoor.com)

- *Limits:* Minimum of \$2,000; aggregate \$120,000
- *Interest Rate:* Prime + 1%
- *Fees:* 0%-7% based on credit
- *Features:* 1 year grace; repay 20 years; Rate reduction for auto timely payment

### THOUGHTS TO CONSIDER WHEN CHOOSING A LOAN:

- What is the interest rate and how is it determined?
- Is the interest rate fixed or variable, and if variable, is there a cap?
- What are the repayment options? How many years will it take to pay off the loan? Can you make interest-only payments while the student is in school? Can you repay the loan early?
- Who is the borrower – the parent or the student?
- Are there origination fees?
- Is a co-signer permitted or required?

## 2007-2008 FAMILY CONTRIBUTION PAYMENT IDEAS

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- Is the interest on the loan tax deductible?

### **EQUITY IN YOUR HOME**

Probably your best asset/loan situation is using the equity in your home to pay for college. This enables you to plan for all 4 years (plus additional children) rather than just one year, with refinancing being your best option. (Equity loans or lines of credit increase your monthly payments, thus hindering your cash flow at a time when increased cash flow is most important.) This way you have the use of 3 years or more worth of money to reinvest at a possibly higher percentage than you are paying for the loan. Other advantages: (a) attending a PROFILE school – lower your EFC for future years, (b) Tax favorable status or mortgage interest. NOTE – if the cash you receive from refinancing the home will result in a loss of financial aid; you may have to put the money in an insurance-based product to protect the sum from the Financial Aid Formula. This method also allows you to work younger children into your college payment planning, rather than going from year to year and facing the possibility of being “loaned-out”.

Structured properly, not only can the use of the equity in your home to attain tax advantages and EFC benefits, but it can actually make money and not have these earnings be negatively impacted by the College Funding formulas. These earnings can enable college cost to be met for all family members without disturbing the family budget, while possibly paying off the home earlier than planned and providing some additional retirement monies.