



Student Loans

What you need to know



capstone

COLLEGE PARTNERS

The Current State of Student Loan Debt in America

EVERY SECOND America's student loan debt GROWS by \$2,726!

In the last ten years, the total student loan debt in America went from \$487 Billion to \$1.363 Trillion as of the second quarter of 2016. WOW!

In the last five years, we have amassed more student loan debt than in **all the years combined** since the federal student loan guarantee programs started more than 50 years ago, in 1965!

Scary stuff! Why has this happened? **The increase in tuition is directly related to the free-flowing market of student loans.** If I were in the lending business, I would love to have a loan on the books that is not able to be bankrupted.

More often than not, students and parents are **forced to take out student loans to help pay for their college costs.**

Loans come in two forms – federal and private (bank) – and no matter who you borrow the money from, you will need to repay it with interest so **you need to understand the different types of loans and how they work.**

Types of Federal Loans

Federal loans typically have lower interest rates and have more flexible repayment options (10 to 25 years); however, the amount you can borrow is limited.

The types of federal loans are **Perkins, Direct Subsidized Stafford and Direct Unsubsidized Stafford, and Direct PLUS.**

Here are some quick facts to help you understand each...

Direct Stafford Loans

The student loan nearly every family will consider is the **Direct Federal Stafford loan—subsidized and unsubsidized.**

Direct Subsidized Stafford Loan	Direct Unsubsidized Stafford Load
Need based	Not need based
Available to undergrad students	Available to undergrad & graduate or professional students
US Department of Education pays interest while in school and during grace period & deferment.	You, not the government, pay interest while in school or defer. Interest will accumulate & be added to principal.
Grace period of 6 months after you leave school before repayment begins	Grace period of 6 months after you leave school before repayment begins
Loan fee (deducted from disbursement amount) –1.068% from 10/1/15 to 10/1/16 and 1.069% from 10/1/16 to 10/1/17	Loan fee (deducted from disbursement amount) –1.068% from 10/1/15 to 10/1/16 and 1.069% from 10/1/16 to 10/1/17

How much can I borrow?

Both the subsidized and unsubsidized Stafford loans have **loan limits** based on your student's grade and dependency. (Dependent students whose parents were denied a Parent PLUS loan can borrow at independent student limits.) Here is summary of the **annual loan limits available** under the Federal Stafford loans:

Grade/Year	Dependent Student	Independent Student
Freshman	\$5,500 (No more than \$3,500 of this may be in subsidized loans.)	\$9,500 (No more than \$3,500 of this may be in subsidized loans.)
Sophomore	\$6,500 (max. \$4,500 subsidized)	\$10,500 (max. \$4,500 subsidized)
Junior & Beyond	\$7,500 (max. \$5,500 subsidized)	\$12,500 (max. \$5,500 subsidized)
Graduate/Professional Students	Not applicable	\$20,500 unsubsidized only
Cumulative Limit	\$31,000 (max. \$23,000 subsidized)	\$57,500 (max. \$23,000 subsidized)

Other Types of Federal Loans

Direct PLUS Loan:

- Available to graduate or professional students as well as to parents of dependent undergraduate students.
- Parents must be approved with a good credit history.
- Can borrow up to the total cost of attendance less financial aid.
- Repayment for graduate student is deferred until they leave school. Interest accrues and is capitalized.
- Repayment for parents may be deferred if requested.
- Loan fee (deducted from disbursement amount) – 4.272% from 10/1/15 to 10/1/16 and 4.275% from 10/1/16 to 10/1/17.

Perkins Loan:

- Available to undergraduate and graduate students with exceptional need.
- You must be attending a school that participates in the Perkins program.
- You have nine months after leaving school to begin repayment.
- The amount you borrow depends on your need, amount available from the school since the school is the lender, and the other aid you receive.
- The interest rate is 5.0%.

More information about federal loans is available from the [Federal Student Loan website](#).

What's going on with interest rates?

Some good news! **Federal interest rates have been going down!**

Here is a new **schedule of rates** for Stafford and PLUS loans:

	Interest Rates		
Federal Student Loan Types	7/1/14 - 7/1/15	7/1/15 - 7/1/16	7/1/16 – 7/1/17
Direct Subsidized	4.66%	4.29%	3.76%
Direct Unsubsidized - Undergrad	4.66%	4.29%	3.76%
Direct Unsubsidized - Grad Student	6.21%	5.84%	5.31%
Direct PLUS	7.21%	6.84%	6.31%

What About Private Loans?

Private loans are made by banks and financial institutions and is the most rapidly growing section of education loans because the **loan amount you can borrow is not limited**.

Students and parents should only consider a private loan after they have **maxed out all the federal loan money available to them**. Interest rates, loan fees, and repayment terms can vary immensely.

Be careful to **compare the payments** you will face. Some banks will offer relatively low loan interest rates, but higher up-front fees. To compare, a 3 to 4% up-front fee equals a 1% higher interest rate.

Parents, you also need to be aware in many cases you will be required to be a **co-signor** on your student's loan to obtain a competitive rate. Ultimately these **loans could become your responsibility** if your student is unable to repay them. If you are not comfortable with co-signing, we recommend you have a conversation long before junior heads off to college.

Our Soap Box

After working with hundreds of families over the years, please allow us to get on our soap box. **We recommend you estimate your total loan balance and resulting monthly payment for your student's ENTIRE college career BEFORE deciding on a school.**

Some Final Things to Consider

Will the monthly payment be an amount you or your student can afford? Here is a good [monthly payment calculator](#) you can use to compare your loan options. As a rough estimate for every \$10,000 you borrow, your payment will be \$100 to \$125 per month on the standard 10-year repayment schedule.

Your total balance should never be more than you **anticipate making your first year out of college**. Not sure what your student might be earning after they

graduate? The [Bureau of Labor Statistics](#) has wage data on over 800 occupations to help you.

We talk so much about the student loan problem, but **all the proposed solutions are reactive**—after the fact—such as Income Based Repayment, Pay as You Earn, Public Service Loan Forgiveness, etc. **We need to shift our way of thinking, America** and take a proactive approach to graduate on time with manageable student loan debt without robbing retirement!