

LOW-COST WAYS TO PAY FOR COLLEGE:

6 Tips on How to Graduate with Less Student Debt

The cost of higher education is skyrocketing, and students often end up graduating with massive debts as a result. Student loan borrowers are also defaulting on their loans at a higher rate than ever before.

It's important to educate yourself about all the options you have to finance your college education, so you can minimize your debt burdens after graduation. **Follow these tips** to help get you started:

1. Seek the Lowest-Cost Source of Funds: Step one is to figure out whether you can get money for school that you *don't* have to repay. Possible sources include:

- Scholarships
- Grants
- Work-study earnings
- Personal savings

Fill out the Free Application for Federal Student Aid (FAFSA) to determine your eligibility for federal and state grants and work-study. Complete the FAFSA as soon as possible after January 1st each year, starting in your senior year of high school. The FAFSA is online at <http://www.fafsa.ed.gov/>.

2. Only Borrow As Much As You Need: If you need to borrow money, try to estimate how much your college education will cost first. Your college is required to provide you with the following estimates:

- Direct costs – tuition, room and board, fees
- Indirect costs – books, transportation, health insurance, and personal needs

Your goal should be to have as little student debt as possible. So consider how the indirect cost estimates match *your* expected personal spending and circumstances – you don't have to take out the whole estimated amount. Also, even if you're eligible for more loans, only borrow the amount you think you will actually need for the upcoming school year. You can always get more loan money later on, should you need it.

3. Federal Loans Are the Best Loan Source: Borrow federal loans only *after* you've pursued any available grants and scholarships. Federal student and parent loans have low, fixed interest rates and flexible repayment plans if you hit hard times. In addition, students with federal loans may qualify for partial loan forgiveness if they work in public service sectors after graduation (see "Loan Repayment 101," below). Federal loans currently have fixed interest rates as low as 3.4%. All students are eligible for federal loans. *You must fill out the FAFSA every year* to be eligible. Go to <http://studentaid.ed.gov> to learn more.

4. Do Everything You Can to Avoid Private Loans: Private student loans should be used only as a last resort – or, if possible, avoided entirely. Your school may tell you about options for private loans as well as federal loans, but don't be fooled into thinking they're the same. Private loans can come with:

- High, variable interest rates as high as 12% or even more
- Strict repayment requirements, even if you can't get a job
- Additional loan fees

The interest rates on private loans can go up suddenly, causing your monthly payments to increase without warning. You won't have the flexible repayment or forgiveness plans offered by federal loan programs – banks will force you to repay even if you can't find a job or can't afford the monthly payments.

5. **Consider Some Smart Ways to Cut Education Costs:** Attending state universities with lower in-state tuition or enrolling in three-year degree programs are just two ways you could lower your education costs. Also, consider attending a community college for two years and then transferring to a four-year university. (If going this route, make sure your community college credits would transfer to the school of your choice.) Many community colleges also have guaranteed admission arrangements with state universities – if you attend certain community colleges for two years and fulfill all the requirements, you can complete your education at the state university for only a fraction of the cost.

Remember, going to your “dream school” is important - but so is avoiding bankruptcy after you graduate. Cost is one of many factors that you must weigh when deciding where to go to college. For tips on how to choose the right college for you, visit <http://consumerreports.org/college>.

6. **Don't Use Your Credit Card to Finance Your Education:** Credit cards are the most expensive source of funds. Avoid using your credit card to finance your tuition, room and board, fees, books, transportation, and health insurance expenses.

Loan Repayment 101: What You Need to Know

In 2007, the government created the *Income-Based Repayment (IBR)* plan for students who have a really heavy debt load and need more than 10 years to pay it back. Under this plan, you can enroll all of your federal loans into IBR and your monthly loan payments will be calculated as a modest percentage of your monthly income (currently at 15%). Private loans are **not** eligible for IBR: **do not** consolidate federal loans with private loans, or you will lose this important repayment option. After a repayment period of 25 years, the remaining unpaid debt is canceled and forgiven. This forgiven amount may be considered taxable income by the IRS. Still, if you're struggling with student loan payments right now, your best bet may be to enroll in IBR and avoid going into default. Consult with your school's student loan officer before graduation about which repayment plan is best for you.

If you end up working in certain types of public interest jobs, such as government and nonprofits, you may also qualify for the *Public Service Loan Forgiveness (PSLF)* program. Under PSLF, if you make 120 loan payments (or 10 years' worth) under the IBR plan while working full-time in eligible job sectors, such as government and public interest, you can get the remainder forgiven – and the forgiven amount *won't* be taxed later.

Starting in 2012, changes to the IBR program will reduce monthly payments to 10% of your adjusted income, and shorten the repayment period from 25 years to 20. This change will only affect borrowers who take out a loan in 2012 or later and who also took out a loan sometime between 2008 and 2012. The PSLF program will continue to be available to students working in government or public interest.

For more information on loan repayment, visit: <http://studentaid.ed.gov/ibr>. You may also want to refer to the Consumer Financial Protection Bureau's "Student Debt Repayment Assistant," an interactive tool for federal and private loan borrowers to determine how to best repay their loans: <http://www.consumerfinance.gov/students/repay/>.

The CFPB Says: “Know Before You Owe”

Understanding your options for how to pay for college is the first step toward graduating with less debt. That's why the Consumer Financial Protection Bureau (CFPB) is developing new ways to disclose information about student loans in plain language that's easier to understand.

Visit the CFPB's “Know Before You Owe” page at: <http://www.consumerfinance.gov/students/knowbeforeyouowe/>.