Understanding the costs of student loan borrowing

sallie mae®

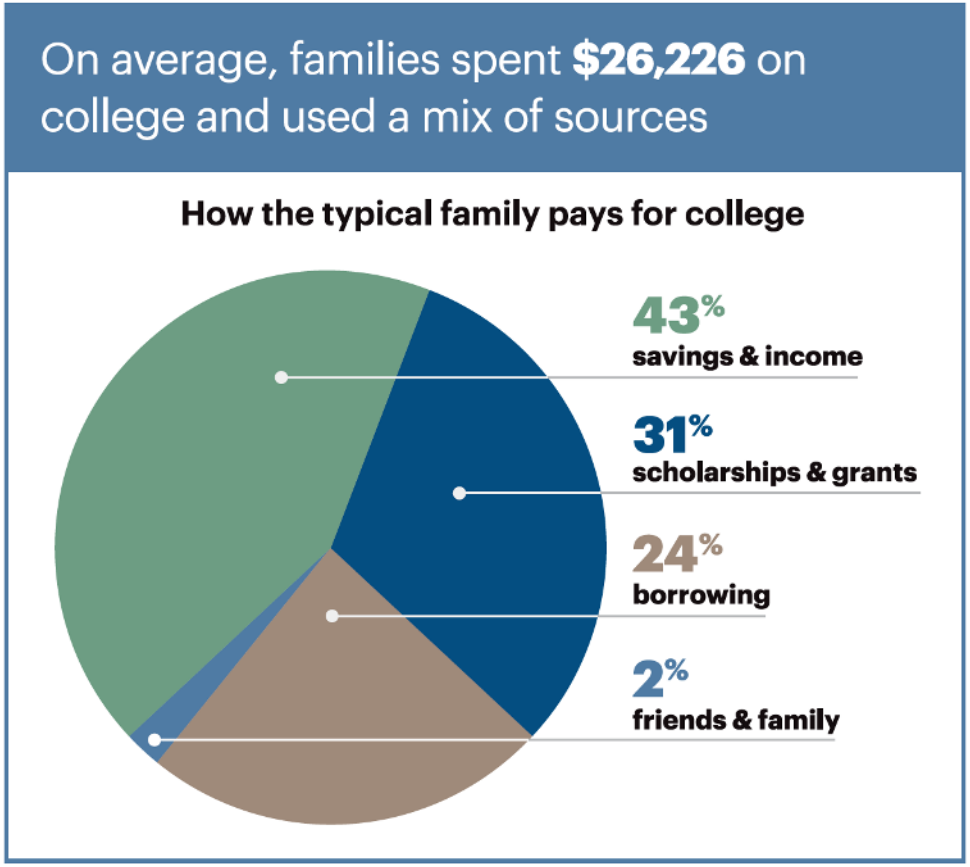
Speaker:

Date:

What you'll learn

- The cost of college
- The value of education
- Managing the costs & resources to pay for college
- How to manage your credit

How are families paying for college?

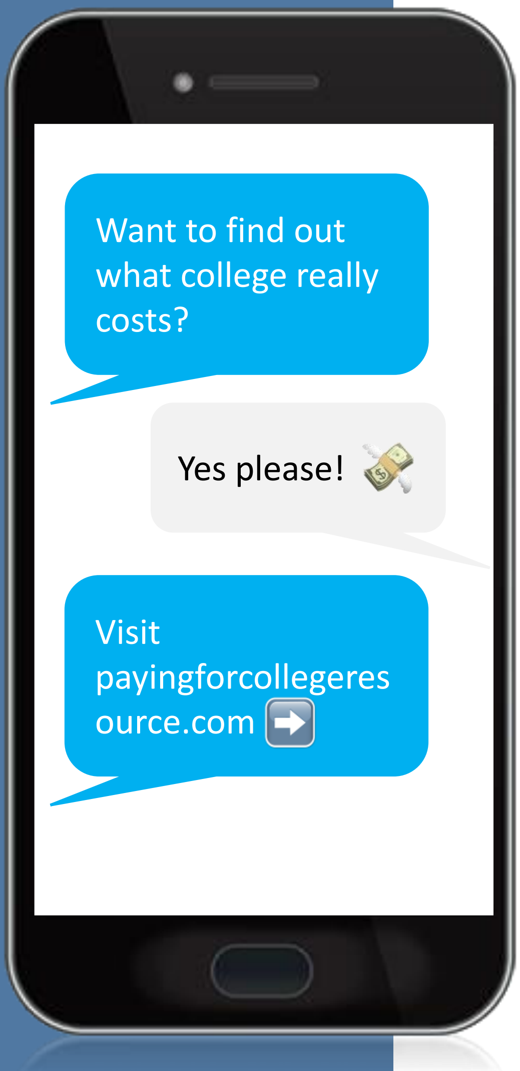


Source: Sallie Mae and Ipsos, *How America Pays for College 2019*

What's the average cost of college?

2-year public college $12,320	**4-year public college/university** (in-state) $21,370
4-year private college/university $48,510	**4-year public college/university** (out-of-state) $37,430

Source: *College Boards Trends in College Pricing 2018; includes tuition and fees, and room and board*



Generally, there are two types of college costs: direct and indirect

Direct costs are assessed by the school but can vary a bit from student to student. **Indirect costs** are those that you can influence based on choices you make.

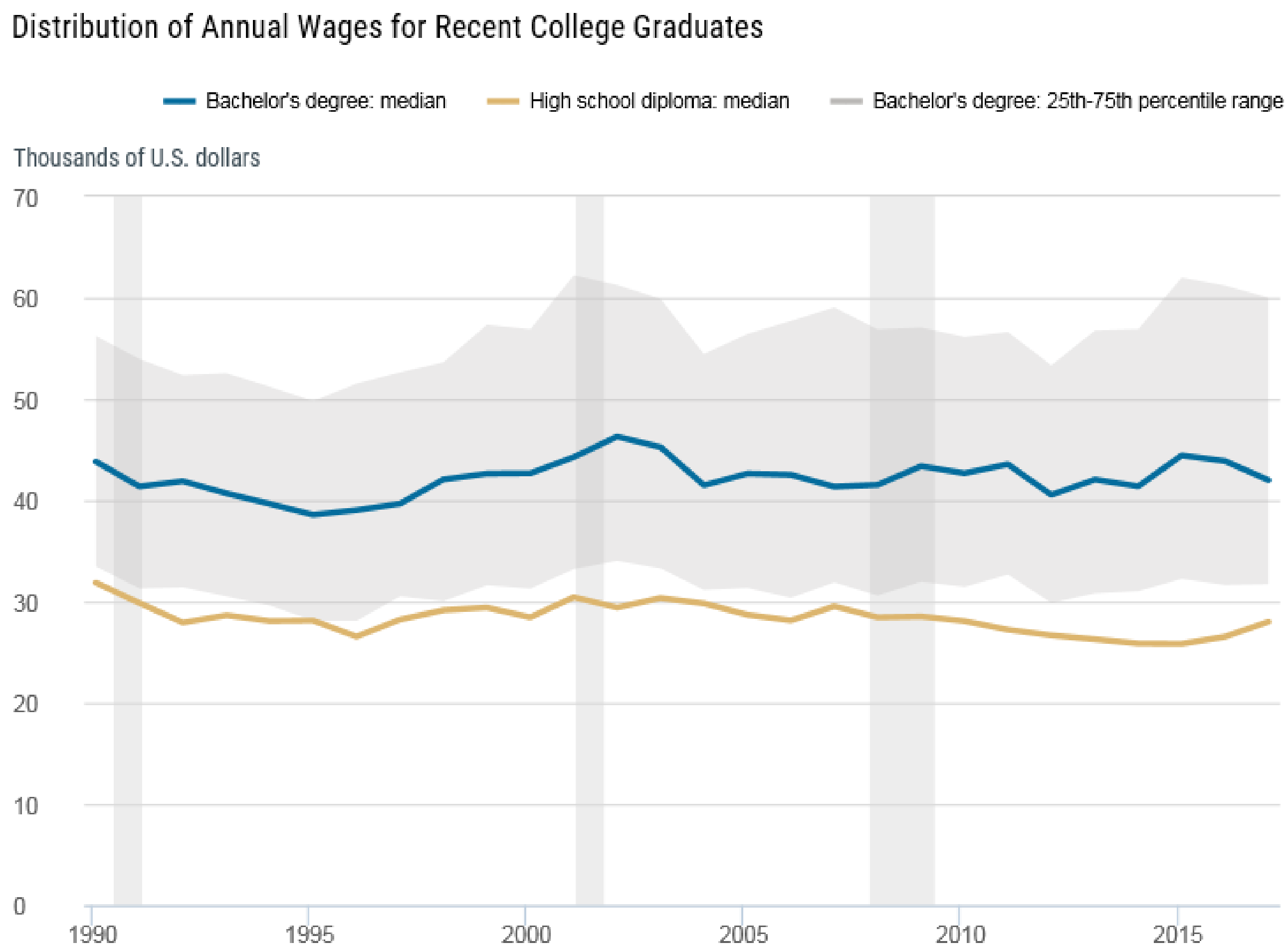
Direct costs

- Tuition
- Fees (health center, student activity, special campus fees, etc.)
- Housing and meal plans

Indirect costs

- Books and supplies
- Equipment (art fees, athletics, computers, etc.)
- Transportation (travel to and from school)
- Personal living expenses
- Housing and meal plans

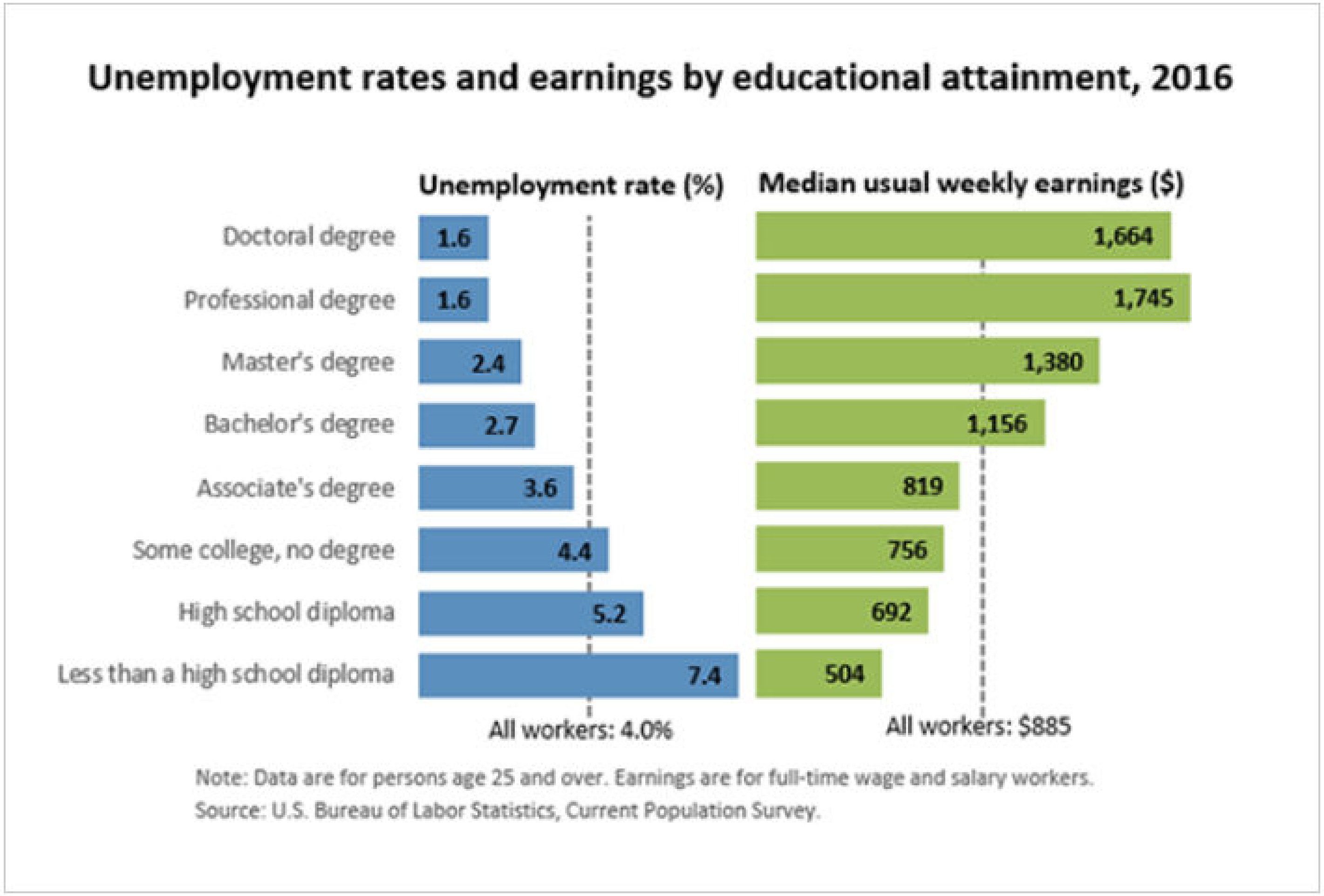
Earnings for college graduates



Source: Federal Reserve Bank https://www.newyorkfed.org/research/college-labor-market/college-labor-market_wages.html

Impact of higher education on unemployment

U.S. Bureau of Labor Statistics



Source: Information gathered 1/2018 from Bureau of Labor Statistics
https://www.bls.gov/careeroutlook/2017/data-on-display/more-education.htm

Managing the cost of education – finding and applying for scholarships and grants

What are grants?

- Grants, which do not require repayment, are typically awarded annually based on information provided on the FAFSA.

- Grants are offered by numerous sources, such as federal and state governments, colleges, and independent organizations.

- Federal grant programs:
  - Federal Pell Grant*
    – The Pell Grants are need based.
    – Awards up to $6,195 for 2019-20 and awarded to all who qualify.
  - Federal Supplemental Educational Opportunity Grant (FSEOG)*
    – FSEOG are for students with exceptional financial need.
    – Awards from $100-$4,000 and on a first come, first served basis.

*This information was gathered on 8/29/19 from https://studentaid.ed.gov/sa/types/grants-scholarships/pell and and https://studentaid.ed.gov/sa/types/grants-scholarships/fseog

Scholarships

Scholarships are typically merit-based and awarded for a variety of reasons including:

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

Scholarships, which do not require repayment, are typically awarded on an annual basis. While the federal and state governments award some scholarships, the majority of funds are awarded by the institution in which students enroll and by private organizations.

Scholarship resources

There are many resources for scholarships:

- Local or community-based scholarships
- Federal and state agencies
- College-specific scholarships offered by the colleges your students are interested in attending
- Religious organizations
- Employers
- Libraries
- Private organizations or major companies
- Online search engines that aggregate scholarship offerings and allow users to be matched to scholarships based on a personal profile

Scholarships and paying for college

Scholarships play an increasingly important role in paying for college with 65% of families reporting the student used a scholarship in 2018-19

61% of scholarship recipients used scholarships from the college with an average amount of $10,006

31% of scholarship recipients used scholarships from the community with an average amount of $2,805

21% of scholarship recipients used scholarships from the state or local government with an average amount of $2,882

Source: Sallie Mae and Ipsos, *How America Pays for College 2019*

Tips for scholarship application success

- Be organized
- Be honest
- Follow instructions
- Include strong recommendations
- Create a lasting impression with your personal essay
- Remember that neatness, spelling, and grammar counts – proofread!
- Ask family and friends for feedback
- Meet deadlines

- Spreadsheets and online calendars can bring order to the application process
- Document your accomplishments so you have the list handy when working on applications
- Allow enough time for a recommendation to be written and thank the reviewer
- Start your essay early and allow plenty of writing time

Managing the cost of education – exploring student loan options

Federal loan programs - undergraduates

Federal Direct Subsidized and Unsubsidized Loans are low-interest loans for students enrolled in college at least half-time.

Direct Subsidized Loans

- Available to eligible undergraduate students with demonstrated financial need
- Interest is paid by the federal government while the student is in school at least half-time and during their six-month grace period

Direct Unsubsidized Loans

- Available to undergraduate and graduate students
- Students are not required to show financial need
- Payments are not required while the student is in school and during their six-month grace period, but interest does accrue

This information was gathered on 8/28/2019 from https://studentaid.ed.gov

Federal Direct Subsidized and Unsubsidized loan program details -undergraduate

- Borrowing limits are:
    - $5,500 first year
    - $6,500 second year
    - $7,500 third and final years
    - *Independent students have higher limits*
- Military members may be eligible for special interest benefits regarding their federal loans
- Payments begin six months after leaving school, graduating, or dropping to less than half-time enrollment
- Flexible repayment options with terms of up to 10-25 years
- Various deferment options are available
- Loan forgiveness options

Loan Type	Interest Rate (disbursed 7/1/19 - 6/30/20)	Fees on or after 10/1/18, and before 10/1/19	Fees on or after 10/1/19 and before 10/1/20
Direct Subsidized Loan	4.53%	1.062%	1.059%
Direct Unsubsidized Loan	4.53%	1.062%	1.059%

This information was gathered on 8/29/19 from https://studentaid.ed.gov

Private student loans

- The student is the primary borrower on a private student loan
- May help a student build credit – especially if scheduled to make payments while in school
- Generally cover up to 100% of the school-certified cost of attendance minus other aid received
- Most lenders offer zero origination/disbursement fees
- Many lenders offer a cosigner release option after meeting certain requirements
- Some lenders offer the option to defer payments while student is in school (interest accrues during this time and is added to the loan's principal amount when the deferment period ends – interest capitalization)
- Terms and costs vary widely between lenders

Private education loans for students

Private education loans can help cover the remaining college costs. When using private loans we encourage borrowers to pay a little now to save a lot later. Making small payments while still in school can result in savings on a student's total loan cost. Securing a creditworthy cosigner may help a student qualify.

The following loan information *may vary depending on the lender*.

Private education loans for students

- Offer a variety of in-school repayment options that include
  - Immediate repayment (pay now)
  - Deferred repayment (pay later)
  - Fixed repayment
  - Interest repayment
- Cosigners may help increase the chance of approval and may help you get a better rate
- Cosigner release may be available
- Students can choose from fixed and variable interest rates

How much should I borrow?

Consider your financial situation and your future earning potential in your chosen field

How much is too much?

- Only borrow what you can afford to pay back later
- According to many experts, students shouldn’t borrow more than their starting annual salary

To help estimate future income potential, you can use sites such as the US Department of Labor at https://www.bls.gov/ooh/

Key things to consider when shopping for education loans

How much should I borrow?

- Consider your financial situation
- Consider expected starting salary and debt load

Type of interest rate?

- Fixed rates – stability but often more expensive
- Variable rates can be less expensive, especially in the short-term

Benefit programs offered?

- Rewards to certain activities such as paying via ACH or paying on-time

Other features

- Repayment term
- Fees (if any)
- Cosigner release
- Death and disability waivers

The relative cost of student loans

Key terms

Interest rate

- The rate charged to borrow money
- The higher the interest rate, the higher the total loan cost

Interest capitalization

- Interest capitalization occurs when unpaid interest is added to the principal amount of a loan, increasing the principal amount outstanding

Repayment incentives

- Interest rate reductions
- Credits to loan balance
- Some benefits and repayment incentives impose eligibility requirements

Impact of interest capitalization

Interest capitalization occurs when unpaid interest is added to the principal amount of a loan, increasing the principal amount outstanding

- Examples:
  - On a $50,000 loan, interest capitalized at the end of a 12-month deferment would be $3,400 with an interest rate of 6.5% with a loan term of 10 years. This will increase the total loan cost by $1,295.60 over the life of the loan
  - On a $100,000, the interest capitalized at the end of a 12-month deferment would be $6,800 with an interest rate of 6.5% with a loan term of 10 years. This will increase the total loan cost by $2,591.20 over the life of the loan

Source: Information gathered on 11/2019 http://www.finaid.org/calculators/scripts/interestcap.cgi

Credit management

FICO Scores®

Lenders can request FICO® Scores from all three major consumer reporting agencies — TransUnion, Equifax, and Experian. FICO ® Scores can influence the credit limit, interest rate, loan amount, rewards programs, balance transfer rates, and other terms offered by lenders.

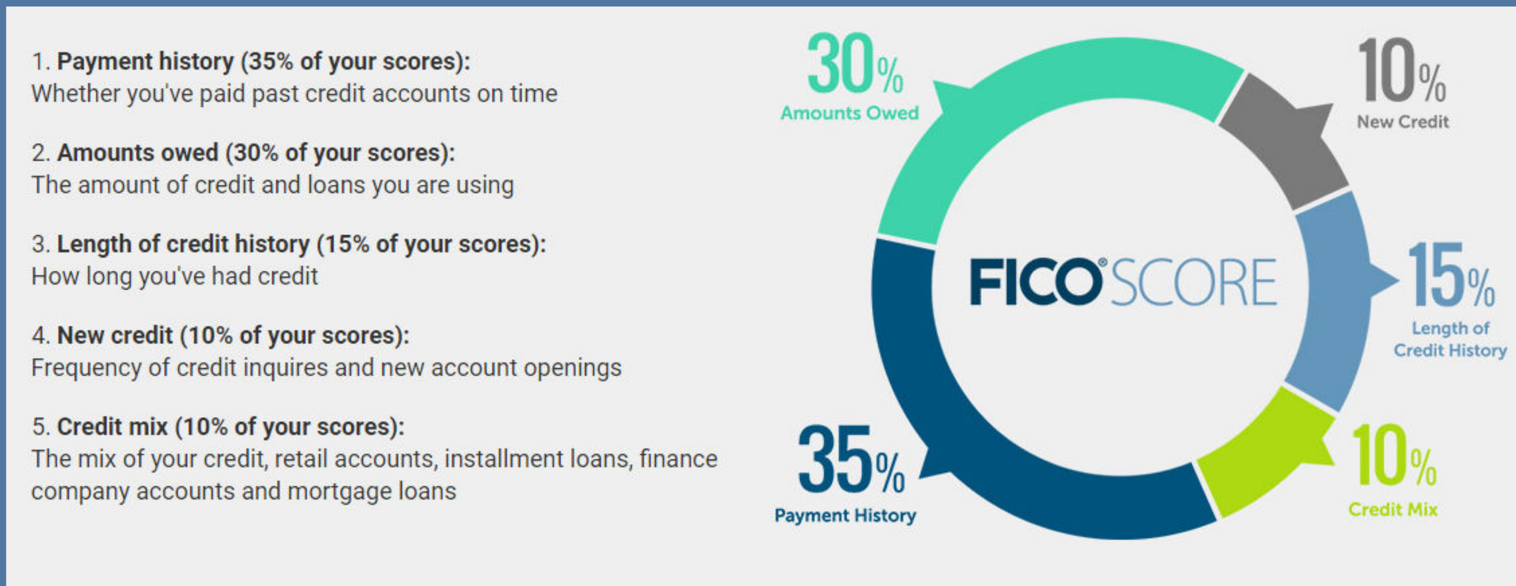
A FICO® Score is a three-digit number calculated from the credit information on an individual's credit report at a particular point in time. It summarizes information in your credit report into a single number that lenders can use to assess your credit risk quickly.

FICO® Scores generally fall within the **300-850** score range.

Learning your FICO® Score can help you better understand your credit health.

Source: http://ficoscore.com/faq/

Components of your FICO® Score



A good FICO® Score means better financial options for you

Source: http://ficoscore.com/faq/

What is a ‘good’ FICO Score?

The higher the score, the better it is!

FICO® Score	Rating	What FICO® Scores in this range mean
800+	Exceptional	• Well above the average score of U.S. consumers • Demonstrates to lenders you are an exceptional borrower
740 - 799	Very Good	• Above the average of U.S. consumers • Demonstrates to lenders you are a very dependable borrower
670 - 739	Good	• Near or slightly above the average of U.S. consumers • Most lenders consider this a good score
580 - 669	Fair	• Below the average score of U.S. consumers • Though many lenders will approve loans with this score
< 580	Poor	• Well below the average score of U.S. consumers • Demonstrates to lenders that you are a risky borrower

Average FICO® Score of U.S. consumers in 2019 was 706

Source: http://ficoscore.com/faq and https://www.fico.com/blogs/average-u-s-fico-score-ticks-706

Why your FICO Score® matters

According to TowerGroup, the FICO® Score makes up 90% of the credit scores purchased by lenders.

US News and World Report states, "The FICO® Score is the No. 1 piece of data to determine how much you'll pay on a loan and whether you get credit."

Regulators widely accept the FICO® Score as a trusted, reliable credit risk model standard, which FICO has helped shape over the last 30 years.

National credit bureau agencies

Equifax	• 800-685-1111 • Equifax.com
Experian	• 888-397-3742 • Experian.com
TransUnion	• 800-916-8800 • TransUnion.com

Helpful resources

Keep good records – A student's to do list

- Get all loan documents together: keep them on file!
  - Promissory notes
  - Disclosure statements
  - Award offers
- Exit interview information
- Open and READ student loan mail
- Bookmark loan servicer's websites
- Notify loan servicer(s) of name & address changes
- Document calls to servicer: date/time of call & person who handled the call
- Keep important numbers available
- Consider using an interactive tracking/budging tool like Intuit's Mint.com

Finding your federal and private student loans

Federal Student Loans

StudentAid.Gov website

Private Student Loans (reported to the consumer reporting agencies)

www.annualcreditreport.com

Track your loans

Tracking my loans

Type of loan	Servicer	Servicer contact info	Loan amount	Interest rate	Grace period *(Yes or No)*	Action date*

TIP: List the type of loan exactly as it appears in NSLDS or annualcreditreport.com

Resources for students

- School financial aid office
- Lender/servicer
- Federal Student Aid Ombudsman
  - U.S. Department of Education – FSA Ombudsman https://studentaid.gov/feedback-ombudsman/disputes/prepare or 1-877-557-2575
  - Federal Loan Servicers:
    - Great Lakes - 800-236-4300 - www.mygreatlakes.org
    - My FedLoan - 800-699-2908 - www.myfedloan.org
    - Nelnet - 888-486-4722 - www.nelnet.com
    - Navient - 800-722-1300 – www.navient.com
- Federal Student Aid and Federal Loan Repayment – Studentaid.gov
- Association of American Medical Colleges (aamc.org)

Given the unprecedented events we are experiencing, remember to check the Department of Education website and/or your loan servicer for the most up-to-date information on options and resources available to you.

optional

- You can choose to use the following slides as polling questions/interactive Q&A during the session

- NOTE: These come from Majoring in Money (MKT14480)

Q: Interest accumulation: Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

a. More than $102
b. Exactly $102
c. Less than $102
d. Not sure

Three in 10 students don't know how interest works

Q: Interest accumulation: Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

a. More than $102
    - Students 71%, completers 83%, non-completers 71%
b. Exactly $102
c. Less than $102
d. Not sure

<u>Q: Effect of payment behavior on credit cost:</u> Assuming the following individuals have the same credit card with the same interest rate and balance, which will pay the most in interest on his/her credit card purchases over time?

a. Joe, who makes the minimum payment on his credit card bill every month.
b. Jane, who pays the balance on her credit card in full every month.
c. Joyce, who sometimes pays the minimum, sometimes pays less than the minimum, and missed one payment on her credit card bill.
d. All of them will pay the same amount in interest over time.
e. Not sure.

Half or fewer understand that negative payment behavior can increase cost

Q: Effect of payment behavior on credit cost: Assuming the following individuals have the same credit card with the same interest rate and balance, which will pay the most in interest on his/her credit card purchases over time?

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b. Jane, who pays the balance on her credit card in full every month.
c. Joyce, who sometimes pays the minimum, sometimes pays less than the minimum, and missed one payment on her credit card bill.
    - Students 40%, completers 54%, non-completers 47%
d. All of them will pay the same amount in interest over time.
e. Not sure.

Q: Impact of repayment term on cost of credit question: Imagine that there are two options when it comes to paying back a loan and both come with the same interest rate. Provided you have the needed funds, which option would you select to minimize your total costs over the life of the loan (*i.e., all of your payments combined until the loan is completely paid off*)?

a. Option 1 allows you to take 10 years to pay back the loan.
b. Option 2 allows you to take 20 years to pay back the loan.
c. Both options have the same out-of-pocket cost over the life of the loan.
d. Not sure.

A sizable portion fail to connect the length of repayment with the cost of borrowing

Q: Impact of repayment term on cost of credit question: Imagine that there are two options when it comes to paying back a loan and both come with the same interest rate. Provided you have the needed funds, which option would you select to minimize your total costs over the life of the loan (*i.e., all of your payments combined until the loan is completely paid off*)?

a. Option 1 allows you to take 10 years to pay back the loan.
   - Students 56%, completers 70%, non-completers 49%

b. Option 2 allows you to take 20 years to pay back the loan.

c. Both options have the same out-of-pocket cost over the life of the loan.

d. Not sure.

Q: Definition of interest capitalization: Which of the following best defines the term “interest capitalization”?

a. The type of interest charged on high-balance loans
b. The addition of unpaid interest to the principal balance of a loan
c. Interest that is charged when you postpone payments on your loans

About half or fewer understand "interest capitalization"

Q: Definition of interest capitalization: Which of the following best defines the term "interest capitalization"?

a. The type of interest charged on high-balance loans
b. The addition of unpaid interest to the principal balance of a loan
   - Students 49%, completers 55%, non-completers 44%
c. Interest that is charged when you postpone payments on your loans

Thank you

The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered or evaluated. Nothing in this presentation constitutes or is designed to constitute tax, legal, or financial advice.

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