

Student Loans

Resources

College Savings Plans of Maryland
www.collegesavingsmd.org

Federal Trade Commission
www.ftc.gov

FinAid!
www.finaid.org

Maryland Higher Education Committee
www.mhec.state.md.us/financialaid

Sallie Mae
www.salliemae.com

Stafford Loan
www.staffordloan.com

Long-term Wealth Creation

Paying for College

As college costs continue to rise, students become increasingly reliant on financial aid to pursue post-secondary education. It is estimated that students or parents may expect to pay about 1/3 of education expenses out-of-pocket, 1/3 in loans, and the other 1/3 in “free money” like scholarships and grants. Most college students graduate with some type of loan debt averaging around \$23,000 for 4 year undergraduate students, and from \$30-\$120,000 for graduate students.



Some strategies that may help to reduce tuition costs include:

- Attend a community college for 2 years then transfer to a 4 year college
- Take advantage of a work-study program, and work on campus to put money toward college expenses
- High school students can take Advanced Placement (AP) courses and receive college credit with acceptable scores on AP tests, which cost less than college courses

When clients apply for the FAFSA they will be considered for federal financial aid, state financial aid, and institutional financial aid.

Free Application for Federal Student Aid (FAFSA)

In order to qualify for any federal student financial aid, clients must complete the FAFSA. The FAFSA includes information from their most recent tax return, and determines their financial aid award package. Colleges and universities have their own filing deadlines, so advise clients to file the FAFSA as early as possible to have a better chance of receiving sufficient aid. Federal deadlines are June 30th and Maryland deadlines are March 1st for the year of enrollment.

After completing the FAFSA the government will determine how much they think an applicant can afford to pay, called the *estimated family contribution*, and send a Student Aid Report (SAR) detailing this information. The school(s) applied to, or currently attending, will then send a financial aid award notification explaining the types of aid clients are eligible for. Clients can decide whether to accept or decline any funding granted.

The FAFSA can be completed online at www.fafsa.ed.gov. If clients do not complete the FAFSA they will not qualify for any state or federal student aid.

Long-term Wealth Creation

Education Loans

There are three primary types of education loans: student loans, parent loans, and private loans. Generally, federal education loans offer lower interest rates and more flexible repayment options than private loans.

The federal government offers two types of need-based financial education loans: Stafford or Perkins. Federal Stafford loans are most common and currently have a fixed interest rate of 6.8%. Perkins loans are for those with extreme need, and have a flat 5% interest rate with a repayment period of 10 years.

Federal student loans are either subsidized or unsubsidized. The government pays interest on subsidized loans while a student is in school; the student is responsible for paying the interest on unsubsidized loans.

Federal Parent Loans for Undergraduate Students (PLUS) are available for parents helping to put dependent children through college. These loans have a fixed interest rate of 8.5%. Parents have the option of deferring payment while their child is in college, and up to six months after they graduate, as long as the student is enrolled full-time.

Private loans are another option for students who need more money than federal funds. While a FAFSA is not necessary, credit scores are considered when applying for these loans. Private loans generally have higher interest rates, and variable interest rates instead of fixed interest rates, but they may cost less than accumulating credit card debt to cover expenses.



A college degree can open up many career opportunities for clients, and increase annual income.

According to the U.S. Census Bureau, employees with a bachelors degree earn an average of \$15 to \$20 thousand more annually, or \$1 million more in their lifetime, than employees with just a high school diploma.

Grants, Scholarships, and Loan Forgiveness

Grants and scholarships are available based on need, academic achievement, or for unique populations. Federal grants include: Federal Pell grant, Federal Supplemental Education Opportunity grant, TEACH grant, National SMART grant, and Academic Competitiveness grant. These grants are usually capped around \$1,000-\$4,000 per year.

Maryland has state financial aid programs, need based grants, career based scholarships, and some loan repayment assistance. The largest Maryland State grant program is the Howard P. Rawlings Educational Assistance Grant.

Loan forgiveness, where part of the loan is discharged, may be available for certain types of service such as volunteer work, careers in public service, military work, etc. Go to www.finaid.org for more information.

You may advise clients to apply for as many scholarships as possible. However, there are some scholarship scams out there. Inform clients that scholarship databases should not charge fees or ask for bank account or credit card information.



College savings plans can help clients save for higher education for their children.

College Savings Plans

Maryland offers two 529 college savings plans: a prepaid college trust, and a college investment plan. A prepaid college trust plan can be used to pay tuition and mandatory fees for Maryland Public colleges, while a college investment plan can be applied toward tuition or eligible higher education expenses at most public, private, or technical colleges nationwide. Both plans are tax deductible. For more details go to www.collegesavingsmd.org.