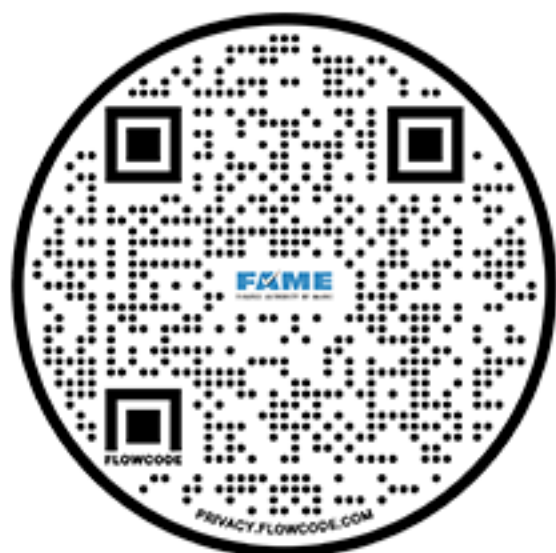


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# Responsible Borrowing 101

## Tools and Strategies to Support Your Students Before They Borrow

October 27, 2023

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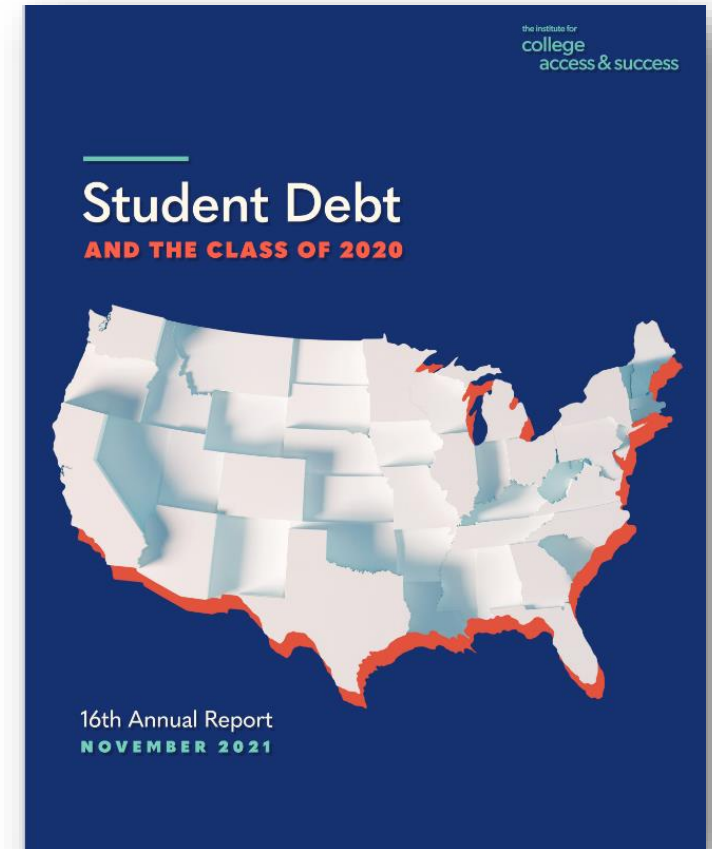
**Mila Tappan**, Manager of College Access and Outreach

- Student Loan Debt Reality Check
- Timing is Everything!
- Federal Loan Programs
- Private Loans
- Tax Credits and Loan Forgiveness Programs



## Student Loan Debt Reality Check ...that you won't hear on the news

- Average student loan debt for four-year degree holders in Vermont (public and private) was **\$34,866 (7th highest in nation)**
- The **loan crisis is not about six figure debt**, it's about persistence and completion
  - Withdrawn students become defaulted borrowers
  - **Most have minimal debt, but no degree**



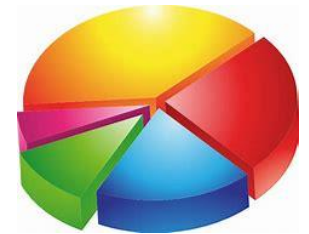
Three periods of time when critical information can have an impact:

- ➔ Before applying and selecting a school
- ➔ During the financing process
- ➔ While in college



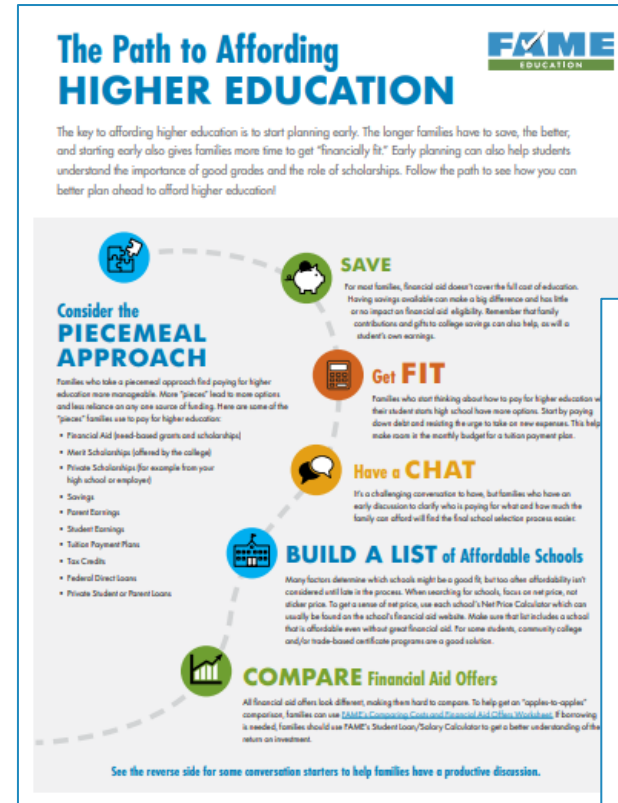
## Before Applying or Selecting a School

- Share the concept of the **piecemeal approach**
  - Merit Aid – typically scholarships awarded outside the financial aid office
  - Need-based Financial Aid – grants, work-study, and federal student loans
  - Scholarships – apply in high school and college
  - Student Savings – including summer and possible school year savings
  - Family Savings – including upcoming holiday and birthday gifts
  - Tuition Payment Plan - monthly payments to the college
  - Other Financing Options – private loans
  - Federal Tax Credits and Deductions - See IRS Publication 970
- Encourage students to apply to a variety of schools, **including a financial aid “safety school”**



# Before Applying or Selecting a School

- Help them evaluate “net price”
- **Promote conversations about affordability**
- Compare financial aid offers to find the best financial fit
- **Provide scenarios:**
  - What will the monthly payment be?
  - How much income is needed to support the debt?



**The Path to Affording HIGHER EDUCATION**

The key to affording higher education is to start planning early. The longer families have to save, the better, and starting early also gives families more time to get “financially fit.” Early planning can also help students understand the importance of good grades and the role of scholarships. Follow the path to see how you can better plan ahead to afford higher education!

**Consider the PIECEMEAL APPROACH**

Families who take a piecemeal approach find paying for higher education more manageable. More “pieces” lead to more options and less reliance on any one source of funding. Here are some of the “pieces” families use to pay for higher education:

- Merit Scholarships (offered by the college)
- Private Scholarships (for example from your high school or employer)
- Savings
- Parent Earnings
- Student Earnings
- Tuition Payment Plans
- Tax Credits
- Federal Direct Loans
- Private Student or Parent Loans

**SAVE**

For most families, financial aid doesn't cover the full cost of education. Having savings available can make a big difference and has little or no impact on financial aid eligibility. Remember that family contributions and gifts to college savings can also help, as well as a student's own earnings.

**Get FIT**

Families who start thinking about how to pay for higher education when their student starts high school have more options. Start by paying down debt and making the steps to take on new savings. This helps make room in the monthly budget for a tuition payment plan.

**Have a CHAT**

It's a challenging conversation to have, but families who have an early discussion to clarify who is paying for what and how much the family can afford will find the final school selection process easier.

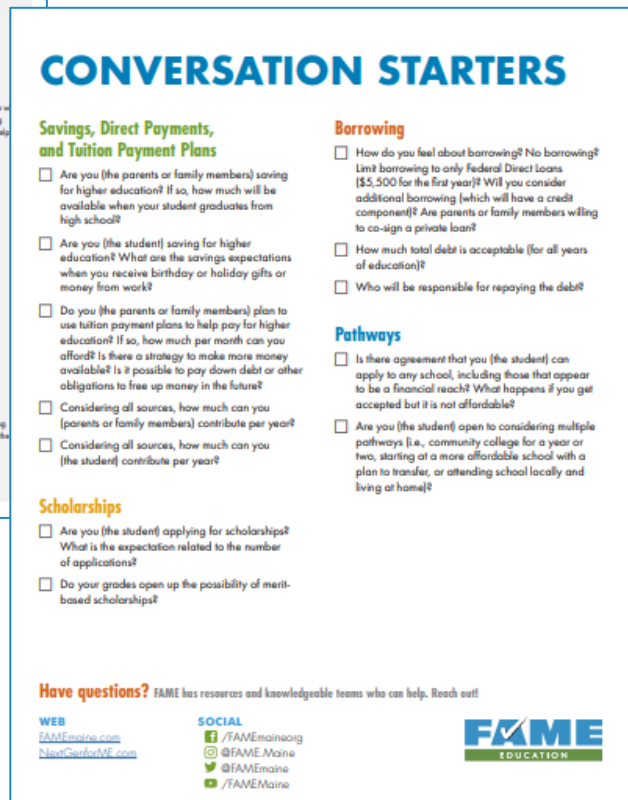
**BUILD A LIST of Affordable Schools**

Many factors determine which schools might be a good fit, but too often affordability isn't considered until late in the process. When searching for schools, focus on net price, not sticker price. To get a sense of net price, use each school's Net Price Calculator which can usually be found on the school's financial aid website. Make sure that list includes a school that is affordable even without great financial aid. For some students, community college and/or trade-based certificate programs are a good solution.

**COMPARE Financial Aid Offers**

All financial aid offers look different, making them hard to compare. To help get an “apples-to-apples” comparison, families can use FAME's [College Comparison Cost and Financial Aid Offer Worksheet](#). If borrowing is needed, families should use FAME's [Student Loan/Salary Calculator](#) to get a better understanding of the return on investment.

See the reverse side for some conversation starters to help families have a productive discussion.



**CONVERSATION STARTERS**

**Savings, Direct Payments, and Tuition Payment Plans**

- Are you (the parents or family members) saving for higher education? If so, how much will be available when your student graduates from high school?
- Are you (the student) saving for higher education? What are the savings expectations when you receive birthday or holiday gifts or money from work?
- Do you (the parents or family members) plan to use tuition payment plans to help pay for higher education? If so, how much per month can you afford? Is there a strategy to make more money available? Is it possible to pay down debt or other obligations to free up money in the future?
- Considering all sources, how much can you (parents or family members) contribute per year?
- Considering all sources, how much can you (the student) contribute per year?

**Borrowing**

- How do you feel about borrowing? No borrowing? Limit borrowing to only Federal Direct Loans (\$5,500 for the first year)? Will you consider additional borrowing (which will have a credit component)? Are parents or family members willing to co-sign a private loan?
- How much total debt is acceptable (for all years of education)?
- Who will be responsible for repaying the debt?

**Pathways**

- Is there agreement that you (the student) can apply to any school, including those that appear to be a financial reach? What happens if you get accepted but it is not affordable?
- Are you (the student) open to considering multiple pathways (i.e., community college for a year or two, starting at a more affordable school with a plan to transfer, or attending school locally and living at home)?


**Scholarships**

- Are you (the student) applying for scholarships? What is the expectation related to the number of applications?
- Do your grades open up the possibility of merit-based scholarships?

**Have questions?** FAME has resources and knowledgeable teams who can help. Reach out!

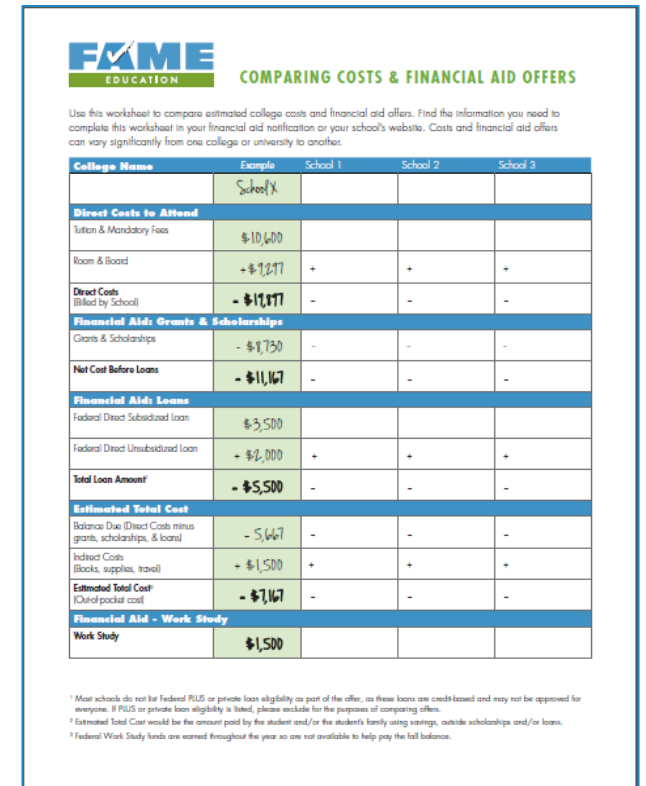
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## Resources & Tools: Before Applying or Selecting a School

- Net Price Calculator
- College Board - *Big Future*
- US Dept of Ed - *College Scorecard*
- US Dept of Ed – *College Navigator*
- [VSAC – “I AM....”](#) section of the website
- FAME’s *The Path to Affording Higher Ed*
- FAME – Comparing Costs & Financial Aid Offers
- [Bankrate.com](#) Student Loan Calculator



**FAME EDUCATION** **COMPARING COSTS & FINANCIAL AID OFFERS**

Use this worksheet to compare estimated college costs and financial aid offers. Find the information you need to complete this worksheet in your financial aid notification or your school's website. Costs and financial aid offers can vary significantly from one college or university to another.

College Name	Example School X	School 1	School 2	School 3
<b>Direct Costs to Attend</b>				
Tuition & Mandatory Fees	\$10,600			
Room & Board	+ \$1,277	+	+	+
<b>Direct Costs (Billed by School)</b>	<b>+ \$11,877</b>	-	-	-
<b>Financial Aid: Grants &amp; Scholarships</b>				
Grants & Scholarships	- \$1,750	-	-	-
<b>Net Cost Before Loans</b>	<b>- \$11,167</b>	-	-	-
<b>Financial Aid: Loans</b>				
Federal Direct Subsidized Loan	\$3,500			
Federal Direct Unsubsidized Loan	+ \$2,000	+	+	+
<b>Total Loan Amount<sup>1</sup></b>	<b>+ \$5,500</b>	-	-	-
<b>Estimated Total Cost</b>				
Balance Due (Direct Costs minus grants, scholarships, & loans)	- \$5,667	-	-	-
Indirect Costs (Books, supplies, travel)	+ \$1,500	+	+	+
<b>Estimated Total Cost<sup>2</sup> (Out-of-pocket cost)</b>	<b>+ \$7,167</b>	-	-	-
<b>Financial Aid - Work Study</b>				
Work Study	\$1,500			

<sup>1</sup> Most schools do not list Federal PLUS or private loan eligibility as part of the offer, as these loans are credit-based and may not be approved for everyone. If PLUS or private loan eligibility is listed, please exclude for the purposes of comparing offers.  
<sup>2</sup> Estimated Total Cost would be the amount paid by the student and/or the student's family using savings, outside scholarships and/or loans.  
<sup>3</sup> Federal Work Study funds are earned throughout the year so are not available to help pay the full balance.



## Borrowing for Direct Expenses

### Tuition, fees, room, board

Annual Borrowing	\$ 10,000	\$ 15,000	\$ 20,000
Over Four Years	\$ 40,000	\$ 60,000	\$ 80,000
10-yr Monthly Payment	\$ 415	\$ 622	\$ 829
Total Interest	\$ 9,746	\$ 14,620	\$ 19,493
<b>Total Repaid With Interest</b>	<b>\$ 49,746</b>	<b>\$ 74,620</b>	<b>\$ 99,493</b>
Annual Income Needed	\$ 64,000	\$ 96,000	\$ 128,000

## Indirect Expenses

### Books, supplies, travel, personal

Annual Borrowing	\$ 3,000	\$ 6,000	\$ 8,000
Over Four Years	\$ 12,000	\$ 24,000	\$ 32,000
10-yr Monthly Payment	\$ 124	\$ 249	\$ 332
Total Interest	\$ 2,924	\$ 5,848	\$ 7,797
<b>Total Repaid With Interest</b>	<b>\$ 14,924</b>	<b>\$ 29,848</b>	<b>\$ 39,797</b>
<b>Additional Annual Income Needed</b>	<b>\$ 18,000</b>	<b>\$ 38,000</b>	<b>\$ 50,000</b>

- **Exhaust all scholarship, grant, and non-loan options**
  - Apply for financial aid
  - Research and apply for outside scholarships
  - Talk to a financial aid counselor
  - Consider a tuition payment plan
- **Determine future earnings and recommended debt level**
  - Revisit amount of debt each year to stay on track
- **Borrow federal loans first** and only borrow what is needed
  - It's okay to decline or return loan refunds

## Resources & Tools: During the Financing Process

- Complete the Free Application for Federal Student Aid (FAFSA) at [StudentAid.gov](https://studentaid.gov), and all college-related financial aid requirements
- **VSAC** – Grants, scholarships, college savings programs, loans, and outreach support
- **Research and apply for scholarships**  
([vsac.org/pay/student-aid-options/scholarships](https://vsac.org/pay/student-aid-options/scholarships))
- **CareerOneStop.org**
- FAME Student Loan/Salary Calculator



- **Reduce college-related expenses**
  - Create a budget and stick to it
  - Buy used or rent textbooks
  - Get a roommate (maybe more than one)
  - Keep an eye on coffee and meals out
  - Reconsider bringing the car to campus
- **Establish a plan to cover expenses** throughout the year with summer earnings or work-study
- **Only use loan money to cover critical expenses**



## Resources & Tools: While in College

- Visit VSAC's "I am..." site
- for iGrad at [iGrad.com](https://www.igrad.com)
  - Explore tools, videos, infographics, and more!
- Use Mint or NerdWallet apps or consider purchasing the You Need a Budget (YNAB) app
- Net Gen Personal Finance (NGPF) – Payback Game, SPENT
- Explore FAME's financial wellness resources
  - [FAMEMaine.com/financial-wellness](https://www.famemaine.com/financial-wellness)

## Why Federal Loans First?

- **Flexible Repayment**
  - Standard
  - Graduated
  - Extended
  - Income Driven (new SAVE plan!)
- Deferment options
- **Public service loan forgiveness**
- Cancellation due to death or disability
- **Fixed and possibly lower interest rates**
- No credit check or co-signer required for students



## Federal Direct Loan Program – undergraduate and graduate students attending college at least ½ time

### ■ Direct Subsidized Loans

- Need-based, included on award letter, no credit check required
- Interest (5.49%) does not accrue while the student is in school

### ■ Direct Unsubsidized Loans

- Not need-based, included on award letter, no credit check required
- Interest (5.49% undergrad, 7.05% grad) accrues while the student is in school

### ■ Federal Direct PLUS Loans – parents and graduate students

- Not need-based, *may* be included on financial aid offer, credit check required
- Can help pay for expenses not covered by other financial aid
- Interest rate is 8.05%

- **Can help bridge gap** between cost of education and financial aid
- Offered by private lenders, **including VSAC and other lenders**
- Separate from the financial aid process and **generally not included on financial aid offer**
- Credit-based, co-signer usually require



## Eligibility criteria

- Interest rates and fees – fixed or variable?
- Annual percentage rate (APR) – cost of interest and fees expressed over time
- Repayment and deferment options
- Quality of customer service, lender experience and reputation
- Additional considerations:
  - Application process
  - Minimum, maximum, and aggregate loan amounts
  - Repayment term, borrower benefits, deferment and repayment options
  - Prepayment penalties, if any
  - Co-signer release

■ **Federal Education Tax Credits and Deductions**

- American Opportunity Tax Credit
- Lifetime Learning Tax Credit
- Student Loan Interest Deduction
- IRS Publication 970

■ **Federal Loan Forgiveness Programs**

- Public Service Loan Forgiveness
- Teacher Loan Forgiveness

■ **Green Mountain Job and Retention Program**

- Spring 2023 Vermont college graduates with a bachelor's degree can apply for \$5,000 of forgiveness.



## You are a key influencer and can help by:

- Creating opportunities to discuss affordability
- Promoting financial wellness
- Encourage your students to reach out to get help
- Don't go it alone – use VSAC, FAME, and all other available resources!



Questions?



Thank you for joining us today!

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