



Paying the Bill – What You Need to Know About Financing Options

June 10, 2015

- Today we will discuss:
 - Financing Options Beyond Financial Aid
 - How to Compare Borrowing Options
 - Resources and Tools



Exhaust Non-Borrowing Options

- Tuition payment plans
 - No interest, small enrollment fee
 - Use in combination with . . .
 - Summer earnings
 - Savings
 - Family assistance, if available
- Scholarships – never stop looking and applying
 - FameMaine.com

Exhaust Subsidized Loans First

- Direct Subsidized Loan
- Federal Perkins Loans
- Institutional Loans – check to be sure no interest is charged while in school

Why Do People Borrow Beyond Need-based Loans?

- Family can't afford all or a portion of their EFC from cash flow
- Financial aid doesn't meet full need – GAP
- Savings not enough or non-existent
- All of the above

Where will students/families seek out information about borrowing?

- These students and/or their families will be coming to you for information. (They'll google it too.)
- You will be asked to review the offerings of Direct PLUS Loans, private education loans, and you may even be asked about using home equity loans.
- Prepare for the conversation. You're a significant part of arguably the biggest investment decision that someone is making.

What are the overriding concerns about any type of borrowing?

- Will I be approved?
- Will I be able to borrow all that I need?
- Will I get a good interest rate?
- Will I have to pay origination/closing fees?
- Will I be able to afford the monthly payment?

What are some of the concerns unique to education borrowing?

- Who can borrower? Student and/or parent?
- Will I/my child find a job making enough money to pay back this loan?
- Is there a loan I can co-sign for my child?
- How can I make this work with other children yet to attend college? Will I be able to retire?
- How can I make this happen for my child?

In this context, students/families will compare the following:

- Direct PLUS Loans
- Private Education (Alternative) Loans
- Home Equity

So let's talk program basics . . .

- Borrower is the parent of an undergraduate student attending at least half time
- Student for whom the loan is being borrowed has to file a FAFSA
- Parent can be custodial or non-custodial, and/or step-parent listed on the FAFSA
 - Legal guardians cannot borrow PLUS
- Credit check required although no debt-to-income ratio is calculated

- Interest rate fixed for the life of that year's loan at the time the loan is made
- Rate is reset annually each July 1 for upcoming academic year loans
- Program cap of 10.5%
- Current 2015 – 2016 rate is set at 6.84%

- Annual loan limit of COA minus financial aid
- No aggregate limit
- Total origination fees of 4.292% of requested loan amount
- On \$10,000 the borrower will pay \$429 or another way to view it, the loan will disburse to the college for a net amount of \$9,571 (rounded)

- Credit Review Includes
 - Unpaid collection accounts and charge-offs
 - Delinquencies 90 days or greater
 - And within the last five years –
 - Bankruptcy discharges
 - Default on a debt
 - Tax Lien
 - Foreclosures
 - Wage garnishments
 - Write-off of FSA Debt

- Borrowers cannot have adverse credit, but if they have no credit they can be approved
- Endorser (co-signer) can be obtained, cannot be the student in the case of a parent borrower
- DOE instituted an appeal process for denials

- New REQUIREMENT March 29, 2015
 - If a borrower is determined to have adverse credit but is subsequently approved via obtaining an endorser (co-signer) OR appeal to the Department of Education, he/she must participate in mandatory loan counseling before the PLUS loan can be disbursed

- Counseling will happen directly at the Student Loan Gov (SLG) website and not with the college or university

- Credit is evaluated each year (adverse credit issue and required counseling may occur annually)
- Parents of undergraduate students cannot be released from the obligation or legally transfer the loan obligation to the student

- Deferment –
 - In-school (student or parent's 1/2 time enrollment)
 - Fellowship or rehabilitation training
 - Military or post-military service
 - Economic hardship or unemployment

- If no deferment is selected, loan begins repayment 60 days after disbursement

- Cancellation –
 - Death (borrower or student)
 - Partial or total disability (PTD)
 - Bankruptcy (rare)
 - Closed school, false certification, or unpaid refund

- Repayment Options – Standard, Graduated and Extended

- Forbearance – temporary postponement of payments
 - Discretionary – lenders option
 - Mandatory – federally regulated

- Federal Tax Benefits – student loan interest rate deduction
 - Maximum deduction is \$2,500
 - IRS Publication 970

Pros

- Parent is the borrower for undergrad students
- Cancellation provisions
- Fixed interest rate
- Deferrals and forbearance
- For those with poor credit, may be only or best option
- PLUS denial expands dependent Direct Loan eligibility
- IR Deduction

Cons

- No shared debt burden with student (undergrad)
- Fixed rate 6.84%
- 4.292% origination fee
- Higher rate than fixed private loans for borrowers with high credit scores
- No income verification or DTI to determine affordability

Private/Alternative Education Loans

Private market place results in more variety among product features as a way to distinguish product and compete.

Private Education Loans

- Borrower – student, parent, non-parent
 - International student with U.S. co-borrower

- Co-borrower – not required though typically encouraged
 - Does not have to be the parent

- Enrollment requirements vary – less than 1/2 time and non-matriculated options available depending on lender

- Choice of fixed or variable interest rate – often available by same lender

Private Education Loans

- Credit criteria established by individual lender
 - Approvals/denials/interest rates may vary for the same borrower looking at different lenders
 - That said, there is enough similarity that you wouldn't want a borrower to apply with too many lenders
- A co-signer almost always guarantees a lower interest rate
- Co-signer release available with most lenders

Private Education Loans

- Credit qualification and underwriting required to ensure affordability
- Credit score evaluation
- Income verification
- Debt-to-income ratio calculation

Private Education Loans

- Fixed interest rates

- Variable interest rates – index + a margin
 - Margin based on credit quality; smaller the margin the better the credit
 - Common indices: WSJ, LIBOR
 - Bankrate.com

- Rates can be influenced by repayment option chosen (immediate, deferred or interest only) which explains why a borrower cannot switch repayment options once the loan is executed

Private Education Loans

- No origination fees – a common feature in the current market place

- Federal Tax Benefits – student loan interest rate deduction
 - Maximum deduction is \$2,500
 - IRS Publication 970

Private Education Loans

- Deferment
 - In-school status of the student
- Forbearance
 - More limited than federal loans
 - Restricted by banking oversight agencies
- Cancellation
 - Some lenders will cancel based on death of the student even if co-signer is on the loan

Private Education Loans

Pros

- Lower interest rates for those with higher quality credit
- Parent acts as co-signer with possible release
- Student establishes credit
- Shared responsibility between parent and student
- No origination fees (in many cases)
- Underwriting done in most cases and this helps determine affordability
- IR Deduction

Cons

- More debt burden on student
- Rates and fees may vary among lenders
- Longer term means more interest
- Can't be consolidated into a federal consolidation loan

- Borrower must be the home owner
- Loan amount limited by the equity in the home
- Loan to value (LTV) calculations
- Interest Rates – can be fixed or variable
- Loan Fees – origination, appraisal, closing costs
- Loan type options – Home Equity Loan and Home Equity Line of Credit
- Not federally insured against disability and death
- Interest may be federally tax deductible

- Based on credit criteria established by the lender but not unlike private education loans
 - Credit score
 - Income verification
 - Debt-to-Income ratio

- Low-Doc or No-Doc loans available for high credit scorers or low LTVs (doc = documentation)

- Loan is secured with property

Pros

- Secured loan
- Interest is tax write-off
- No school certification
- Low rates
- Not regulated by TIV – could take one loan to accomplish multiple goals
- Reduces asset for future IM calculation

Cons

- Reduces asset
- More difficult to get approved
- Application fees may be higher
- Many do not have death/disability cancellation benefits
- Closing costs
- Market sensitive limits - equity
- Longer term means more interest
- Failure to repay the loan may jeopardize home ownership

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Annual Percentage Rate

Annual Percentage Rate, also known as an APR, represents the true cost of a loan including fees and interest rate over the full payback period of the loan.

An APR is really the only way to compare the cost of borrowing between various loans.

Students/Families Need Help

- Help your students and their families figure out HOW to evaluate their options
 - You don't need to be a product expert

- Know the market of private loan lenders and their products
 - Maine Private Education Loan Network
 - The Maine Loan

Students/Families Need Help

- Provide a side by side comparison of PLUS and private education loans
- Understand the basics of home equity and how it's a different choice compared to PLUS and private education loans
- Encourage families to create a “pros and cons” list for their situation

Simple Side by Side

	Federal Direct PLUS Loans	Private Education Loans	Home Equity Loans
Who makes these loans?	Federal Direct PLUS Loans are offered by the federal government.	Private education loans are offered by banks or credit unions.	Home equity loans are offered by banks or credit unions.
Who can be the borrower?	Only a biological or adoptive parent, or a step-parent on the FAFSA can be the borrower on behalf of an undergraduate student.	The student can often be the borrower for a private education loan but may need a creditworthy cosigner.	The home owner has to be the borrower.
What are the interest rates?	All borrowers, regardless of credit quality, will pay the same fixed interest rate of 6.84% for the 2015–2016 academic year.	Interest rates can be fixed or variable and are determined by the credit quality of the applicant, and if applicable, cosigner. Chosen repayment term may also impact interest rate.	Interest rates can be fixed or variable and are determined by the credit quality of the applicant, and if applicable, cosigner. Chosen repayment term may also impact interest rate.
Are there fees?	All borrowers, regardless of credit quality will pay the same origination fee of 4.292%.	In the current market there are many zero/low fee private education loan options.	Home equity loans may have an application fee, appraisal fee and/or closing costs associated with making the loan.
Can you postpone repayment?	Deferments and forbearances are available through federal student aid regulations.	Deferments and forbearances will vary by lender but other consumer protections are available through federal and state banking regulations.	Home equity loans do not carry deferments or forbearance options but other consumer protections are available through federal and state banking regulations.

- Give your students and their families the tools to find the best way to borrow for them
- Don't inadvertently create a situation where your students and families feel victimized by the cost of higher education because their cost of borrowing was higher than it had to be or they felt overwhelmed by the process

One Size Does Not Fit All

- Every borrower's financial situation is different
 - Many borrowers can qualify for better terms than PLUS
 - Many borrowers may only have PLUS as an option

- Every student and family is different
 - MBA students love to shop rates; law students – not so much
 - Some borrowers only want a variable option; others fixed
 - Some parents insist they be the borrower, not the student

- Students and families need your help making the process understandable – small bits of information

What makes an overriding concern is the individual to whom it matters.

- If the most important thing to a borrower is lowest rate and no fees, then he/she may not focus on other loan features.
- If the most important thing to a borrower is getting approved, then he/she may not focus on rates and fees.
- A borrower may want the flexibility of a home equity line of credit or increase the interest he/she can write-off on taxes.

Loan Features to be Considered

- Borrower Eligibility
- Loan Payment and Terms
- Payment Insurance
- Interest Rate and Caps
- Loan fees; origination, appraisal, “closing costs”
- Approval Criteria
- Application Process
- Deferment and Repayment Options
- Loan/Borrowing Limits
- Tax Benefits
- Pre-payment Penalties

Questions to Ask

- Have you applied for financial aid?
- Has the student looked for outside scholarships?
- What about a monthly payment plan and a loan?
- Are you considering home equity?
- Who will be doing the primary borrowing, parent or student?
- Should you share the borrowing?
- Is smallest monthly payment most important?
- Is lowest interest rate important?
- Are low origination fees important?
- Are tax benefits most important?
- Do you know if you have a good credit score? (myfico.com)
- Retirement?
- Other children attending college?
- What are short and long term goals of family, student?
- What affect does this have on other family plans?

Those of us who work in education ask students and families to trust that the cost of higher education is worth the value . . .

. . . be part of that value.

- FAMEMaine.com
 - Scholarship Search
 - Salary/Debt Calculator
 - Money Management (credit scores, budgeting)
 - Maine private education lenders
- Studentaid.ed.gov
 - Federal Loan Information (student and parent)
 - Repayment Options
 - Deferments/Forbearance/Cancellations
- Bankrate.com
 - Indices and their historical trends
 - APR information

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