

# Guide to College Borrowing

What you should know before borrowing for college.



YOUR GATEWAY TO SUCCESS



**RISLA**  
RHODE ISLAND STUDENT  
LOAN AUTHORITY

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# Types of Education Loans

By now, your child has probably been accepted to college and knows where he or she is going to go. But have you decided how you are going to pay tuition? As a rule, you always want take advantage of any available scholarships and grants, and pay what you can from salary and savings before turning to college loans.

If you do need college loans, it is important that you conduct a thorough comparison of all of your options and make sure you understand the rates, fees, and terms of any loan program you are considering. Below is a run down of the available types of student and parent education loans to help you get started.

## Federal Direct Stafford Loans

**Description:** Loan for students funded by the U.S. Dept. of Education. These loans come in two forms: subsidized and unsubsidized. The federal government pays the interest on subsidized loans while the student is in school. The student is responsible for all interest charges on unsubsidized loans. Graduate students are not eligible for subsidized loans.

**Rates:** Rates are fixed and are set each year (in May) based on the 10-year Treasury bill plus a markup. Visit [studentaid.ed.gov](http://studentaid.ed.gov) for the most current rates.

**Fees:** 1.072% fee. Fees are deducted from the amount disbursed to the school.

### Annual Limits:

Dependent Student Limits		
Year in School	Subsidized Limit	Total Limit
First	\$3,500	\$5,500
Second	\$4,500	\$6,500
Third-Fifth	\$5,500	\$7,500

  

Independent Student Limits		
Year in School	Subsidized Limit	Total Limit
First	\$3,500	\$9,500
Second	\$4,500	\$10,500
Third-Fifth	\$5,500	\$12,500
Grad Students	N/A	\$20,500

*Aggregate limits also apply.*

**Eligibility:** U.S. citizen/permanent residents; full/part-time students. Subsidized: For students who have financial need, as determined by the FAFSA and school

costs. Unsubsidized: For students who do not have financial need.

**Repayment Term:** Up to 10 years for standard repayment. Graduated, extended, and income based repayment options also available. Deferment, forbearance options, and other benefits apply.

**Grace Period:** 6 months

**How to apply:** Complete the FAFSA by your school's deadline. You will also have to complete an additional application, known as a Master Promissory Note (MPN), to accept your award.

**More information:** [studentaid.ed.gov/types/loans/subsidized-unsubsidized](http://studentaid.ed.gov/types/loans/subsidized-unsubsidized)

## Federal Perkins Loan

**Description:** Loan for students with a low fixed interest rate, funded by federal government and administered by the student's college. This loan is awarded based on need to undergraduate & graduate students. Not all schools participate in this program and school that do have a limited amount of funds to award each year.

**Rate:** 5% fixed

**Fees:** None

**Eligibility:** U.S. citizen/permanent residents; full/part-time undergraduate/grad student; need-based

**Amount:** Up to \$5,500 annually for undergraduates; \$8,000 for graduates

**Repayment Term:** Up to 10 years

**Grace Period:** 9 months

**How to apply:** Complete the FAFSA by your school's specified deadline.

**More information:** [studentaid.ed.gov/types/loans/perkins](http://studentaid.ed.gov/types/loans/perkins)

## Federal PLUS Loan

**Description:** Loan for parents of undergrad students and for graduate students, funded by the U.S. Dept. of Education.

**Rate:** Rates are fixed and are set each year (in May) based on the 10-year Treasury bill plus a markup. Visit [studentaid.ed.gov](http://studentaid.ed.gov) for current rates.

**Fees:** 4.288% fee deducted from amount disbursed to the school.

**Eligibility:** U.S. citizen/permanent resident; parent of dependent undergraduate student or a graduate student. A credit check is required.

**Amount:** Up to the difference between college costs and total financial aid received.

**Repayment Term:** Up to 10 years for standard repayment. Loan repayment begins 60 days after final disbursement. Parents or graduate students can defer payments until 6 months after the student leaves school. Interest accrues during this period.

**Minimum payment:** \$50/month

**How to apply:** Submit the FAFSA by your school's deadline. You will also need to complete a Master Promissory Note.

**More Information:** [studentaid.ed.gov/types/loans/plus](http://studentaid.ed.gov/types/loans/plus)

## State-Based Education Loans

**Description:** An alternative loan for students and/or parents available from state-based lenders. These lenders often offer very competitive fixed rates and low fees.

**Eligibility:** A credit check & cosigner are usually required.

**Amount:** Loan limits vary by program.

**Repayment Term:** Repayment terms vary by program.

**How to apply:** Each lender will have specific procedures for you to follow.

**More information:** [www.risla.com](http://www.risla.com) for Rhode Island residents & students going to school in Rhode Island. Visit [www.efc.org](http://www.efc.org) for a list of other state-based lenders.

## Private Education Loans

**Description:** A private loan for students available from a nationwide lender or bank, generally with a variable interest rate based off of Prime or LIBOR plus a markup. Variable rates are currently at all time lows so the advertised rate on most of these programs may not be what you pay over the life of your repayment term. When interest rates rise, so will your monthly payment amount. Fees and rates vary based on loan program and often times, your credit rating. Typically, very few borrowers qualify for the lowest advertised rates.

**Eligibility:** A credit check is usually required; cosigner is often required.

**Amount:** Loan limits vary by program.

**Repayment Term:** Repayment terms vary by program.

**How to apply:** Each lender will have specific procedures for you to follow.

## RISLA Student Loan

- State-based education loan from a non-profit lender
- Student and parent borrow together. Parents can be released after good payment behavior if the student qualifies. See details online.
- Low fixed interest rates
- Zero origination fee options
- For students attending eligible colleges in Rhode Island and for Rhode Island residents attending school in or out of state

Visit [www.risla.com](http://www.risla.com) for details.

# Comparing Loan Options

## 15 Questions to Ask Before Borrowing a College Loan

As a rule, you should always take advantage of any available scholarships and grants, and pay what you can from income and savings before turning to education loans.

If you do need college loans, federal subsidized Stafford loans and Perkins loans are a good place to start. You must have financial need to be eligible for a Perkins loan or subsidized Stafford loan. If you do, your school will include it in your aid package. If you do not have financial need, your school may award you an unsubsidized Stafford loan. These federal student loan programs have annual & aggregate borrowing limits.

If you still need to borrow after exhausting these options, you may want to consider looking into a state-based education loan, Federal PLUS Loan, or private student loan. Remember to limit the amount you borrow!

### Before you borrow, always ask the lender:

1. What is the interest rate?
2. Is the interest rate fixed or variable? (Variable rates can change monthly or annually.)
3. Is the rate I receive based on my credit?
4. Does the interest rate ever change? (Some loans have different rates while you are in school vs. after you graduate and start repaying your loan.)
5. What are the fees? (repayment fees, origination fees, default fees, late payment fees, etc.)
6. What is the loan term?
7. What would my monthly payment be if I borrowed \$X,XXX? Could my payment change?
8. When would my first payment be due?
9. How are loan funds disbursed? ( you or the school?)
10. What steps do I need to take to complete an application?
11. How long does it take to process an application?
12. Are there loan limits? Annual? Aggregate?
13. Who is eligible for this loan?
14. Do I need a cosigner?
15. What deferment and forbearance options are available to me?



# Determining Borrowing Needs

## What all parents should know about comparing financial aid award letters before making a decision about where to enroll.

With college costs on the rise and exceeding \$50,000 a year in some cases, college has become increasingly more difficult to afford. Often times, income, assets and savings, including education savings plans, are not enough to cover your family's contribution. Financial aid can help reduce the cost of college but families are still often left with a considerable gap.

Ideally, you should attempt to get as much free money as possible before turning to loans to cover college costs. You may receive grants and/or scholarships in your financial aid package from your school, but outside scholarships are also available to help families fund a higher education. Local scholarships are widely available and are often easier to obtain than national scholarships.

Visit [RIScholarships.org](http://RIScholarships.org) to search through a comprehensive listing of hard-to-find local scholarships.

## 10 Tips for Comparing Award Letters & Coming Up with a Plan to Pay the Balance Due

Making sense of financial aid award letters can be a daunting task for families as they make college enrollment decisions. Currently, schools don't use a standardized form, so comparing financial aid offers from multiple colleges isn't always easy. Use this guide to compare your awards & come up with a plan to pay your tuition bill:

- 1. Add up your direct costs.** Direct costs are costs paid directly to the school such as tuition & fees and room & board. Books, travel costs, personal expenses and other miscellaneous costs, while they add to your total cost of attendance, are considered indirect costs.
- 2. Calculate your total gift aid.** Gift aid is free to you and includes grants and scholarships. The first step to comparing award letters is to sum up your total gift aid. Subtract any gift aid from your total direct costs.
- 3. Consider what savings you have available to help meet tuition costs.** Do you have a 529 college savings plan or a Coverdell savings account? Any other savings or gifts meant for college? Subtract any resources you will use from your direct costs.
- 4. Determine if you have any income available to help pay college costs.** Most colleges offer a payment plan that allows you to spread out the cost of tuition over the course of a school year. Typically, a payment plan administrator charges a one-time enrollment fee. Be aware that making payments late can result in high fees. Contact the college Bursar's office or Financial Aid Office to get information regarding payments plans. Some popular plan administrators are Tuition Management Systems (TMS), Academic Management Systems (AMS) and FACTS.
- 5. Add up federal student loans.** If federal student loans, including the Direct loan (subsidized or unsubsidized) and Perkins loans, are included in your financial aid award, decide if you would like to accept these awards. Remember, you will have to pay interest on loans so you want to borrow as little as possible. Make sure you understand the terms of these loans before accepting them. Subtract the amount of Perkins and Stafford loans you will accept from your direct costs.



6. **Think about how you will meet the difference.** The remaining balance may be higher than your Expected Family Contribution (EFC). Most schools are not able to meet 100% of your financial aid eligibility. Some schools may include the Federal PLUS Loan in your financial aid package. Keep in mind that you can apply for this loan regardless of whether or not it is listed on the financial aid award letter and you don't have to accept it just because it is included. If you plan to borrow, whether it is a PLUS loan, state-based loan, or private education loan, remember to be a good consumer and explore rates, fees and terms. Factor your borrowing into the whole picture when determining which aid package is best for your family.
7. **Subtract any additional loans you plan to borrow from your direct costs.** This includes PLUS loans, state-based loans and private education loans (remember to be careful to compare rates, terms and fees for any of these options before signing the note!). Make adjustments if you still have a balance due.
8. **When comparing award letters, focus on the ratio of gift aid to total aid received.** It is easy to get swept away by a big financial aid offer. But remember, it isn't always the total award amount that is most important. Pay

attention to how much of your financial need each college met and how they met your need. The higher ratio of gift aid the better. Also, figure out if awards are renewable. Be wary of scholarships and grants that are only good for your first year.

9. **You do not need to accept the financial aid package as is.** Loans need to be paid back with interest, so try to limit the amount you borrow by reducing your award amounts or declining loans if you don't need them. If you think you need more aid, you can always try to appeal the offer. Make sure you have documentation to support your request.

10. **Send in award acceptance forms by the deadline.** If you do not, the aid awarded to you may go to another student.

**See page 10 to use our Meeting College Costs Worksheet that can help you compare your award letters and determine how you will meet the tuition bill.**



## XYZ College University

Student Financial Aid Award Notification

Dear Student,

CONGRATULATIONS on your acceptance to XYZ College University! On behalf of the university we are pleased to offer you the following financial assistance towards your pursuit of higher education.

Student Financial Aid Offer				
Award	Fall	Spring	Total	Acceptance
Federal Pell Grant	\$1875	\$1875	\$3750	yes no
College Work Study	\$750	\$750	\$1500	yes no
Institution Grant	\$500	\$500	\$1000	yes no
Direct Stafford Subsidized Loan	\$1750	\$1750	\$3500	yes no

This award is the result of a review of your financial aid application. Next to each type of award you have the opportunity to accept or decline all, none or some of the financial assistance offered to you. Please indicate your choices by circling the appropriate response. Then sign and date the letter below and return to the financial aid office within fifteen days. Two copies of the letter are enclosed; please keep the second copy for your records. If you have any comments, questions, concerns or any unusual circumstances, please contact our office as soon as possible. We look forward to seeing you in the fall.

Director  
Financial Aid  
XYZ College/University  
(101) 555-1234

signature
date



# Smart Borrowing

## Educate yourself *before* you borrow

The average student in RI graduates with more than \$30,000 in student loan debt. Some students graduate with much less, and others - with a lot more. Many students and parents are surprised to learn that they owe hundreds of dollars (or even thousands) a month in student loan payments. That's why before you borrow, you should understand your college loan options and learn about how to borrow responsibly.

### What amount is the “right” amount to borrow for college?

This is a difficult question students & parents need to face before making an enrollment decision. While many students are eager to sign whatever it takes to go to their dream school, they often don't understand how much it will cost them after they graduate. Others decide if they need to borrow for college, they just won't go. What is the right choice?

The reality is borrowing for college isn't always bad - as long as it is done responsibly. College graduates earn much more than high school graduates so college is a good investment. But families should be careful not to borrow outside their means. Think about your return on investment.

### Only borrow what you absolutely need.

You don't need to borrow the full amount listed on your financial aid award letter. It is tempting to borrow a little extra for something you *want* but don't actually *need*. When you borrow money, you pay it back with interest, increasing your total costs. **A good rule of thumb is to only borrow what you absolutely need and no more.**

### Don't ignore interest.

It is easy to underestimate how much interest you will pay over the course of your repayment period. Use our loan repayment calculator at [www.risla.com](http://www.risla.com) to estimate your monthly payments and to see how much you will pay in interest on your loans. The chart in the next column provides examples of how much interest you would pay on a \$10,000 loan with varying terms & rates. Please note all figures are estimates.

Interest rate	Number of payments	Est. Monthly Payment	Total Interest Charges	Total Cost of Loan
Assuming a \$10,000 loan with zero fees and a 10 year term				
4.0%	120	\$101	\$2,149	\$12,149
5.0%	120	\$106	\$2,728	\$12,728
6.0%	120	\$111	\$3,322	\$13,322
7.0%	120	\$116	\$3,933	\$13,933
8.0%	120	\$121	\$4,559	\$14,559
9.0%	120	\$127	\$5,201	\$15,201
10.0%	120	\$132	\$5,858	\$15,858
11.0%	120	\$138	\$6,530	\$16,530
12.0%	120	\$143	\$7,217	\$17,217
Assuming a \$10,000 loan with zero fees and a 15 year term				
4.0%	180	\$74	\$3,314	\$13,314
5.0%	180	\$79	\$4,234	\$14,234
6.0%	180	\$84	\$5,189	\$15,189
7.0%	180	\$90	\$6,179	\$16,179
8.0%	180	\$96	\$7,202	\$17,202
9.0%	180	\$101	\$8,257	\$18,257
10.0%	180	\$108	\$9,343	\$19,343
11.0%	180	\$114	\$10,459	\$20,459
12.0%	180	\$120	\$11,603	\$21,603

### How much will you earn?

Before borrowing, students should do research on entry level salaries in their field of choice (The Bureau of Labor Statistics web site is a great place to start: [www.bls.gov](http://www.bls.gov)). Students should ask themselves: “Will I be able to afford my monthly payments with the salary I will make?” Remember to account for all four years of education when estimating your or your child's total borrowing needs. Too many students have a “borrow now, deal later” attitude that ends up getting them into trouble.

### How will your education debt affect your future goals?

When deciding between two schools, a student may find he or she wants to go to one more, but it will mean your family has to borrow a lot more. Think about how that will affect your and your child's ability to reach your future goals. Will you be able to afford to reach your goals with a higher education loan payment?

# Student Loan FAQ

## What are Entrance and Exit Interviews?

If a student has federal student loans, he or she will be required by law to complete an entrance interview prior to receiving a loan and an exit interview before graduation. Entrance interviews help students understand their federal student loan responsibilities. Exit interviews

are used to inform students about repayment obligations and options. Certain schools allow students to complete entrance and exit interviews online.

than non-federal education loans. If the student re-enrolls in school at least half time, you are unemployed, in the military or performing another public service, or having trouble making your student loan payments for any other reason, contact your lender or student loan servicer to see if you qualify for a deferment or forbearance.



are used to inform students about repayment obligations and options. Certain schools allow students to complete entrance and exit interviews online.

## What is a grace period?

After graduation, students may be entitled to a grace period, or a period during which they aren't required to make student loan payments, typically for six months. Although a grace period applies to all federal loans, not all non-federal loans afford this option so make sure to check with the lender to determine when payments will be due on each of your family's loans.

Making payments towards student loans during the grace period (and also during any deferment periods) can be a good idea. It will potentially reduce the amount of interest that is added to your balance and ultimately paid over the life of the loan.

## What is deferment and forbearance?

Your lender may grant you a temporary postponement of payments called a deferment or forbearance. Whether you receive a deferment or forbearance depends on your eligibility and the type of loan you have. Federal loans typically offer more deferment & forbearance options

## What happens if I default on my student loan?

Defaulting on your student loan has many serious consequences. If you are having trouble making payments, remember to call your student loan lender or servicer to learn about your deferment and forbearance options or to see if you qualify for a different repayment schedule, such as extended repayment or income-based repayment. If you default on an education loan, you may:

- Be ineligible for federal and private student aid in the future.
- Lose your deferment and forbearance options.
- Have to pay your entire loan balance immediately.
- Pay additional costs if your account is turned over to a collection agency or attorneys.
- Hurt your credit and therefore your ability to borrow in the future, rent an apartment, or even get a job.
- Have your federal or state tax return withheld so that it can be applied to your defaulted loan balance.
- Have your wages garnished.

# Meeting College Costs Worksheet

	College 1	College 2	College 3	College 4
Enter college name on this line				
<b>Direct Costs</b>				
Tuition & fees				
Room & board				
Health insurance fees				
Other fees				
<b>Total Direct Costs (A)</b>				
<b>Gift Aid</b>				
Federal Pell grant				
Federal SEOG grant				
Federal TEACH grant				
State grant				
College grant				
College scholarship				
Outside scholarships & grants				
<b>Total Gift Aid (B)</b>				
<b>Personal Resources</b>				
529 Plan				
Coverdell savings account				
Other college savings account				
Parent savings & assets				
Student savings & assets				
Other				
<b>Total Resources (C)</b>				
<b>Self-help Aid</b>				
Tuition payment plan				
Federal Perkins Loan				
Direct Subsidized Stafford Loan				
Direct Unsubsidized Stafford Loan				
Federal PLUS Loan				
State-based student loan				
Private education loan				
Home equity loan				
<b>Total Self-help Aid (D)</b>				
<b>Summary</b>				
Total Direct Costs (A)				
Total Gift Aid (B)				
Amount Due to School (A - B)				
Total Personal Resources (C)				
Total Self-help Aid (D)				
Gap (A-B-C-D)				

**Don't forget to come up with a plan for paying indirect costs, like books, transportation & living expenses. Visit us online at [www.risla.com](http://www.risla.com) to use our online Meeting College Costs Calculator.**



**RISLA**  
RHODE ISLAND STUDENT  
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