

# DCC Dollars & Sense

Volume II, Issue I

May I, 2006

## Financing College Education: A Great Investment

### ***Special points of interest:***

- .What types of financial aid are available?
- Find out how much assistance you qualify for.
- Additional On-Line Resources

Gaining a college education is a key building block on the path to future opportunity. While 50 years ago having a high school diploma was often enough to not only land a job but also enable advancement, today's landscape is vastly different and is one in which a college degree is essential to procure even an entry-level assign-

ment in most fields. As college degrees become a de rigeur component of an average workers portfolio, advanced degrees are looking more and more attractive as a way to distinguish between one candidate and the next. However, as the necessity of having higher education has increased, so too has its cost. In the last 10 years, the average tuition at four-year private colleges has increased by over \$10,000, including a 5.9% increase in the last year alone, to \$21,235 ( Collegeboard.com). While less expensive (for residents, at least), public schools are not excepted from these rising costs, their costs rising by 7.1% in the last year to \$5,491. Room and board costs have also increased, up 21% in the last 10 years, pushing the average cost of education to just under \$20,000 at many public universities and to well over \$30,000 per year at private colleges (Studentloan.com). As these are no trivial sums, the big question is how to afford the cost. Thankfully many options exist to help families and students in this endeavor.

### Federal Student Aid

Federal student aid can come in two forms: loans, which need to be repaid, and grants, which do not have to be paid back.

### **Grants:**

Though I will focus here on loans since they are what most students use to finance most of their education, one should not forget to apply for any and all grants and scholarships for which one is eligible. While there are popular websites such as [www.fastweb.com](http://www.fastweb.com) that will help a student search for scholarships online, students should also contact their college financial aid offices for further information and direction.

### **Loans:**

There are 3 main types of Federal Student Loan, and they are the Federal Stafford Loan, the Federal Perkins Loan, and the Federal PLUS Loan Program. Many times, a student will end up with two or more of these types of loans in combination to fully finance their education.

The Federal Stafford Loan: The Federal Stafford Loan comes in two *flavors*, subsidized and unsubsidized. Eligibility for the subsidized Stafford Loan is based on financial need. Need is determined by submission of the Free Application for Federal Student Aid (FAFSA) which can now be found and completed online at [www.fafsa.ed.gov](http://www.fafsa.ed.gov). With a subsidized Stafford Loan, the government pays the interest on the loan while the student is enrolled in school at least half-time, during the grace period (6 months), and during any periods of deferment. The unsubsidized Federal Stafford Loan is not based on need, and the interest that accrues on it is the responsibility of the borrower. The current interest rate for Federal Stafford Loans is 4.7% while the borrower is in school, and 5.3% during repayment and forbearance. It will never exceed 8.25% over the lifetime of the loan.

The following tables, from [www.Collegezone.com](http://www.Collegezone.com), show yearly limits for both the subsidized and unsubsidized Federal Stafford Loan for undergraduate students

**Undergraduate Student - Dependent**

Academic Level	Combined Subsidized and Unsubsidized Loan Limits	
	Loans certified on or before June 30, 2007	Loans certified on or after July 1, 2007
Freshman	\$2,625	\$3,500
Sophomore	\$3,500	\$4,500
Junior	\$5,500	\$5,500
Senior	\$5,500	\$5,500
Subsequent Undergraduate Levels	\$5,500	\$5,500

**Undergraduate Students—Independent**

Academic Level	Combined Subsidized and Unsubsidized Loan Limits		Additional Unsubsidized Loan Limits*	Total Federal Stafford Loan Limits	
	Loans certified on or before June 30, 2007	Loans certified on or after July 1, 2007		Loans certified on any date	Loans certified on or before June 30, 2007
Feshman	\$2,625	\$3,500	\$4,000	\$6,625	\$7,500
Sophomoe	\$3,500	\$4,500	\$4,000	\$7,500	\$8,500
Junior	\$5,500	\$5,500	\$5,000	\$10,500	\$10,500
Senior	\$5,500	\$5,500	\$5,000	\$10,500	\$10,500
Subsequent Undergraduate Levels	\$5,500	\$5,500	\$5,000	\$10,500	\$10,500

\* All independent students may qualify for these additional unsubsidized Federal Stafford Loan amounts. Dependent students, whom the financial aid administrator judges to be eligible based on certain circumstances, or those whose parents do not qualify for a [Federal PLUS loan](#) may also qualify.

Repayment of both the subsidized and unsubsidized Federal Stafford Loans must being 6 months following graduation or a drop below half-time status.

The Federal Perkins Loan: This loan is available to both undergraduate and graduate students who display exceptional financial need. The interest rate on the Federal Perkins Loan is set at 5%, and the annual limits are \$4000 for undergraduates and \$6000 for graduate students. The FAFSA is used to determine eligibility for the Perkins Loan as well. Repayment of the Federal Perkins Loan must begin 9 months following graduation or a drop to below half-time status.

The Federal PLUS Loan Program: This type of loan is not need based, and is taken out by the parents of a dependent undergraduate. There annual maximum is the cost of education (determined by a budget created by the school) less any financial aid received. There is no aggregate maximum. Eligibility criteria is the same as that required for Federal Unsubsidized Loans, in addition to a credit check, and any further criteria determined by the lender. The current interest on the Federal PLUS Loan is 6.1%, though it is variable and cannot exceed 9% over the lifetime of the loan. Repayment of the Federal PLUS Loan must begin 60 days after funds have been disbursed.

If the 3 types of Federal loans discussed above prove insufficient to cover college costs, private loans (called alternative loans) are available. Alternative loans do require a credit check, and should be considered only after receipt of a financial aid award letter from the school so that the borrower is aware of all Federal loan options. Alternative loans do require a credit check, and if the student borrower has limited credit, may also require a co-signer.