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From the crisp pages of the first college textbook to the last student loan payment, higher education is a remarkable journey.

For the **current students** , read about private student loans and the new rules for college campus-sponsored debit and prepaid credit cards.

For the **graduates** , read about loan repayment, debt optimization, and the challenge of deciding to reduce debt or contribute to a 401(k).

As always, please contact me with any questions at aupchurch@financialguide.com.

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Higher Education

Learning and Loans

Common Questions About Student Loan Repayment

After earning their degrees, many college graduates face a new challenge--repaying their student loans. If you've recently graduated from college, you might have some concerns about how you'll pay your student loans. Here are some answers to common questions about paying student loans.

Can I start making payments before the grace period ends?

Yes. The purpose of the grace period is to allow new graduates to get on their feet financially before committing to monthly loan repayment. The typical grace period is six months, though whether you have one and the exact length will depend on the type of loan you have.

You can make payments before the grace period ends, if you can afford to do so. Making payments during the grace period could reduce the overall interest you pay on the loans and enable you to pay off your loans more quickly.

How do I know which repayment plan is right for me?

Typically, several repayment options are available. This means you should be able to find one that is flexible enough to meet your needs. Asking yourself the following questions may help with your decision:

- How much can I afford to pay monthly? Will I be able to balance what I can afford to pay against what I am required to pay?
- Would it be better to pay the minimum payment on multiple loans or consolidate them into a single payment?
- Which repayment plan will save me the most money over the long term?
- Which repayment plan will help me pay off my student loans the fastest?
- How much total interest will I pay under each repayment plan?

For more information on specific types of repayment plans for federal student loans, visit studentaid.ed.gov.

Should I consolidate multiple student loans?

You might opt to combine multiple student loans into a consolidated loan with a single monthly payment. Many borrowers prefer the convenience of making a single payment each month over multiple student loan payments, even if it doesn't significantly change the total monthly amount. But consider the following repercussions first.

For example, you might forfeit some of the benefits that come with federal loans. You could also wind up paying more--and once the loans are combined, you won't be able to pay down the loan with the highest interest rate first.

Some private student loans may be consolidated, though it might be smart for you to wait a few years after graduation before consolidating. You can use that time to build a solid credit history, which could help you earn a better rate when you do consolidate.

What happens if I miss a payment?

If you forget to make a single payment, you should be in the clear as long as you get back on track right away. But if you miss multiple payments, you need to come up with a plan.

Perhaps you've missed payments as a result of temporary financial hardship. In this case, you could be eligible for a deferment. If you qualify, you won't be required to make monthly payments, but you're still responsible for accrued interest on all of your loans during this period. Even if you don't meet the requirements for a deferment, you can seek your lender's or servicer's approval for a forbearance, which also allows you to stop paying your student loans for a period of time, typically six months.

Remember that interest will still accrue, so you may end up owing more over the course of your loan. Think carefully before you pursue either option.

What You Need to Know About Private Student Loans

Students and parents borrowed $106.1 billion in education loans in 2014-2015. (Source: Trends in Student Aid, College Board, 2015)

It's an unfortunate trend in college pricing--the average cost of tuition and fees at four-year public and private institutions are significantly higher than they were just a decade ago. For example, the average published tuition and fee price of a full-time year at a public four-year institution is 40% higher, after adjusting for inflation, in 2015-16 than it was in 2005-06. (Source: Trends in College Pricing, College Board, 2015) As a result of these rising costs, many individuals have to rely on student loans to help fund their college education.

Will I have to take out private loans to finance my college education?

What can be surprising to many first-time student borrowers is how little federal student loan debt they may be allowed to take on. Currently, the maximum amount students can borrow for college in federal Direct Stafford Loans is $5,500 during their first year, $6,500 during their second year, and $7,500 during their third and fourth years. (Source: Federal Student Aid, U.S. Department of Education, 2015)

In most cases this amount is not nearly enough to cover the cost of attending a four-year college, and many student borrowers must look to private student loans to help close this gap. And while taking out private loans to pay for college is a fact of life for many individuals, there are some important questions you'll want answered before taking out these types of loans.

What is the interest rate on the loan?

Private student loans tend to have higher fixed interest rates than federal Direct Stafford Loans. However, depending on the lender, you may be able to choose a loan that offers a lower variable interest rate.

Keep in mind that with a fixed rate, the interest rate remains the same from the day you take out the loan until the day you pay it off. With a variable rate, your interest rate may initially be lower than a fixed rate but then will be adjusted periodically to keep up with changes in market conditions. If your interest rate rises, your monthly payment and/or the number of payments required will increase.

What repayment options are available?

Unlike federal student loans, which offer repayment programs such as pay as you earn, income-based repayment plans and student loan forgiveness, private lenders are not required to offer specific repayment assistance to borrowers struggling to make payments.

However, most private student loan companies do offer limited forms of repayment options, such as loan forbearance or extended repayment schedules. The types of repayment programs offered will vary from lender to lender.

Is a co-signer required?

Some private lenders may require borrowers to have a co-signer guarantee a loan, especially if a borrower has little or no credit history. Having a co-signer may also help you obtain a lower interest rate for your loan and improve your chances for loan approval.

The good news is that the co-signer doesn't necessarily have to be tied to the loan forever. Most lenders will allow borrowers to apply for a co-signer release after a certain number of on-time payments have been made and other loan conditions have been met.

Are the terms of the loan favorable?

As a result of recent increased regulatory scrutiny surrounding private loans, many of the larger lenders have improved the lending process by offering more attractive loan terms.

For example, certain lenders have eliminated "auto defaults," which is when a co-signer dies or declares bankruptcy and the lender demands that the loan be paid back immediately by the borrower. Others have made the process for obtaining a co-signer release easier and more transparent. Loan costs, discounts, terms, and conditions can differ greatly, depending on the lender. It's important to thoroughly research each potential lender and carefully compare all offers before signing a loan agreement.

Are other financing options available?

When it comes to using private loans to pay for college, student borrowers should try to graduate with the least amount of private student loan debt possible. It's generally a good idea to exhaust all federal student loan options and avoid taking out loans for the maximum amount that is offered by private lenders unless absolutely necessary.

Additional financing options should also be considered, such as:

- Parent PLUS loans
- Grants or scholarships
- Parent/family loans
- State-sponsored student loan programs
- Part-time employment

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Debt Optimization Strategies

You may be able to improve your financial situation by implementing certain debt payoff strategies that can reduce the time you make payments and the total interest you pay. Before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including any prepayment penalties.

Note: All examples are hypothetical and used for illustrative purposes only. Fixed interest rates and payment terms are shown, but actual interest rates and payment terms may change over time.

As part of improving your financial situation, you might consider reducing your debt load. A number of strategies can be used to pay off debt. However, before starting any debt payoff strategy (or combination of strategies), be sure you understand the terms of your debts, including interest rates, terms of payment, and any prepayment or other penalties.

Understand minimum payments (a starting point)

You are generally required to make minimum payments on your debts, based on factors set by the lender. Failure to make the minimum payments can result in penalties, increased interest rates, and default. If you make only the minimum payments, it may take a long time to pay off the debt, and you may have to pay large amounts of interest over the life of the loan. This is especially true of credit card debt.

Your credit card statement will indicate the amount of your current monthly minimum payment. To find the factors used in calculating the minimum payment amount each month, you need to review terms in your credit card contract. These terms can change over time.

For credit cards, the minimum payment is usually equal to the greater of a minimum percentage multiplied by the card's balance (plus interest on the balance, in some cases) or a base minimum amount (such as $15). For example, assume you have a credit card with a current balance of $2,000, an interest rate of 18%, a minimum percentage of 2% plus interest, and a base minimum amount of $15. The initial minimum payment required would be $70 [greater of ($2,000 x 2%) + ($2,000 x (18% / 12)) or $15]. If you made only the minimum payments (as recalculated each month), it would take you 114 months (almost 10 years) to pay off the debt, and you would pay total interest of $1,314.

For other types of loans, the minimum payment is generally the same as the regular monthly payment.

Make additional payments

Making payments in addition to your regular or minimum payments can reduce the time it takes to pay off your debt and the total interest paid. The additional payments could be made periodically, such as monthly, quarterly, or annually.

For example, if you made monthly payments of $100 on the credit card debt in the previous example (the initial minimum payment was $70), it would take you only 24 months to pay off the debt, and you would pay total interest of just $396.

As another example, let's assume you have a current mortgage balance of $100,000. The interest rate is 5%, the monthly payment is $791, and you have a remaining term of 15 years. If you make regular payments, you will pay total interest of $42,343. However, if you pay an additional $200 each month, it will take you only 11 years to pay off the debt, and you will pay total interest of just $30,022.

Another strategy is to pay one-half of your regular monthly mortgage payment every two weeks. By the end of the year, you will have made 26 payments of one-half the monthly amount, or essentially 13 monthly payments. In other words, you will have made an extra monthly payment for the year. As a result, you will reduce the time payments must be made and the total interest paid.

Pay off highest interest rate debts first

One way to potentially optimize payment of your debt is to first make the minimum payments required for each debt, and then allocate any remaining dollars to the debts with the highest interest rates.

For example, let's assume you have two debts, you owe $10,000 on each, and each has a monthly payment of $200. The interest rate for one debt is 8%; the interest rate for the other is 18%. If you make regular payments, it will take 94 months until both debts are paid off, and you will pay total interest of $10,827. However, if you make monthly payments of $600, with the extra $200 paying off the debt with an 18% interest rate first, it will take only 41 months to pay off the debts, and you will pay total interest of just $4,457.

Use a debt consolidation loan

If you have multiple debts with high interest rates, it may be possible to pay off those debts with a debt consolidation loan. Typically, this will be a home equity loan with a much lower interest rate than the rates on the debts being consolidated. Furthermore, if you itemize deductions, interest paid on home equity debt of up to $100,000 is generally deductible for income tax purposes, thus reducing the effective interest rate on the debt consolidation loan even further. However, a home equity loan potentially puts your home at risk because it serves as collateral, and the lender could foreclose if you fail to repay. There also may be closing costs and other charges associated with the loan.

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Should I pay off my student loans early or contribute to my workplace 401(k)?

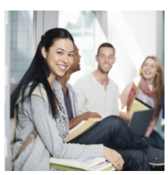
For young adults with college debt, deciding whether to pay off student loans early or contribute to a 401(k) can be tough. It's a financial tug-of-war between digging out from debt today and saving for the future, both of which are very important goals. Unfortunately, this dilemma affects many people in the workplace today. According to a student debt report by The Institute for College Access and Success, nearly 70% of college grads in the class of 2014 had student debt, and their average debt was nearly $29,000. This equates to a monthly payment of $294, assuming a 4% interest rate and a standard 10-year repayment term.

Let's assume you have a $300 monthly student loan payment. You have to pay it each month--that's non-negotiable. But should you pay more toward your loans each month to pay them off faster? Or should you contribute any extra funds to your 401(k)? The answer boils down to how your money can best be put to work for you.

The first question you should ask is whether your employer offers a 401(k) match. If yes, you shouldn't leave this free money on the table. For example, let's assume your employer matches $1 for every dollar you save in your 401(k), up to 6% of your pay. If you make $50,000 a year, 6% of your pay is $3,000. So at a minimum, you should consider contributing $3,000 per year to your 401(k)--or $250 per month--to get the full $3,000 match. That's potentially a 100% return on your investment.

Even if your employer doesn't offer a 401(k) match, it can still be a good idea to contribute to your 401(k). When you make extra payments on a specific debt, you are essentially earning a return equal to the interest rate on that debt. If the interest rate on your student loans is relatively low, the potential long-term returns earned on your 401(k) may outweigh the benefits of shaving a year or two off your student loans. In addition, young adults have time on their side when saving for retirement, so the long-term growth potential of even small investment amounts can make contributing to your 401(k) a smart financial move.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.



What are the new rules for college campus-sponsored debit and prepaid credit cards?

Advertisements aimed at promoting a particular financial institution's debit and prepaid credit cards are a common sight on many college campuses today. While many financial institutions have partnerships with colleges to market these products, consumer groups argue that they sometimes come at a high cost to students. As a result, the Department of Education recently issued new rules designed to offer protections to students.

Why are the new rules so important? Once tuition and fees are paid, many students receive the remainder of their financial aid through disbursements to campus-sponsored financial products, such as debit and prepaid credit cards. In fact, it's estimated that nearly $25 billion in federal student aid funds is disbursed to students using these types of products. (Source: U.S. Department of Education Press Release, October 2015) Students often use these funds to help pay for incidental education-related expenses such as food, housing, books, and supplies. If a debit or prepaid credit card has excessive charges and high fees, it can end up cutting significantly into a student's financial aid funds.

The new rules are scheduled to go into effect in July and apply only to campus-sponsored financial products that are directly linked to financial aid disbursements. The rules will offer a variety of protections, such as:

- Allowing students to have a choice in how they receive their federal financial aid disbursements
- Giving students objective and neutral information about their financial aid disbursement options
- Requiring institutions to ensure that students are not charged excessive fees (e.g, overdraft and transaction-swipe fees) when they select campus-sponsored financial products
- Requiring financial institutions to publicly disclose contracts for campus-sponsored financial products