CONSUMER NEWS

SAN DIEGO CITY ATTORNEY'S OFFICE

Student Loans:

Options for Financing Your Education

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The cost of higher education has grown exponentially over the last few decades. Fortunately, consumers have several options to pay for their education.

Grants and scholarships are ideal choices because they do not generally require repayment. However, students must meet certain criteria to qualify for grants and scholarships, and the selection process is often highly competitive. For information on scholarships and grants, contact the school's financial aid or admissions office. Local community organizations also offer scholarships. All grants, scholarships, and other resources should be exhausted before taking out loans.

Student loans are a common way to pay for college. This article seeks to demystify the complicated student loan landscape, and offer consumers some choices for funding their education.

The first step is calculating your "total cost of attendance." This figure represents the total cost of attending the institution, including tuition costs, room, board, fees, etc. Once this cost is determined, the student should identify what financial resources they have available. These resources may include grants, scholarships, personal savings, and prepaid college savings plans.
Once the student has determined his or her "total cost of attendance," the next step is to fill out the Free Application for Federal Student Aid (FAFSA). More information on the FAFSA is available in our December 2012 newsletter on education scams.

FEDERAL STUDENT LOANS

The Student Aid and Fiscal Responsibility Act of 2010 eliminated private lenders from the federal student loan program. The U.S. Department of Education now administers all federal student loans directly. The Federal Direct Loan Program offers four major types of student loans, described below.

Stafford Loans: There are two types of Stafford loans: subsidized and unsubsidized. Subsidized Stafford loans offer low interest rates on loans for which the government pays interest while the student is enrolled in school, as well as during grace periods and periods of deferment. Students must show financial need to qualify for subsidized Stafford loans.

Unsubsidized Stafford loans offer the same low interest rates as the subsidized variety. However, the student is responsible for paying all of the interest on unsubsidized Stafford loans, even during the grace period and periods of deferment. Fortunately, students may defer these costs while enrolled in school. There is no financial need requirement for unsubsidized Stafford loans.

PLUS Loans: These low interest loans are available to parents of undergraduate and graduate students, as well as graduate students themselves. Interest is charged during all periods, and PLUS loans require a credit check.

Direct Consolidation Loan: This type of loan allows the borrower to consolidate all eligible federal loans into one loan after the borrower leaves school. However, students cannot consolidate loans made directly to them with loans made to their parents, and vice versa.

Perkins Loan: These loans are available to students who demonstrate financial need. The federal government provides the funds to individual colleges, and the colleges lend the funds to their students.

PRIVATE STUDENT LOANS

These are loans offered by banks and other financial institutions. The student's credit score often determines whether they are eligible for these loans. Private loans are generally more expensive than federal student loans, and have fewer repayment options. Therefore, students should only take out these loans as a last resort, when they have exhausted all other options.

REPAYING STUDENT LOANS

Students are responsible for repaying their loans regardless of whether they drop out of school, fail to find a job after graduation, or are not satisfied with the quality of their education. This is why it is important to research an institution thoroughly before enrolling.

Student loan repayment should begin immediately after graduation, or within the six month grace period following graduation. Fortunately, there are some options for graduates struggling to repay their loans.

Changing the Repayment Plan: Struggling graduates may be able to extend payments, or make graduated payments. Extending the payments will result in lower monthly payment amounts. However, the graduate may end up paying more in the long run because it will take longer to repay the loan. Graduated repayment plans start low, and increase every two years. This may be a good option if the graduate expects their income to increase.

Income Based Repayment (IBR): IBR is a relatively new program that makes repayment affordable by capping monthly payment amounts based on income and family size. This means that eligible borrowers' IBR loan payments are generally less than 10% of the borrower's income. Sometimes, payments are even smaller.

Additionally, IBR forgives the remaining debt after twenty-five years of qualifying payments. IBR is available to federal student loan borrowers, and covers most types of federal loans made to students. However, IBR does not cover loans made to parents. Visit www.IBRinfo.org for additional information.

Loan Consolidation: If a graduate has several loans, consolidation may ease the financial burden of repayment. The interest rate on a consolidation loan is the weighted average of all loans being consolidated. While this option may not reduce the borrower's payments, consolidating all loans into one payment simplifies the repayment process.

Deferment or Forbearance: Deferment is a legal right allowing borrowers to postpone payment on their loans if they meet certain criteria. For instance, re-enrolling in school, or having a child are valid reasons for deferment.

Forbearance, on the contrary, occurs when the borrower requests a temporary break, or reduction in payments. The lender may choose to grant this request, but is not obligated to do so.

LOAN CANCELLATION OR FORGIVENESS

Under certain conditions, or through specific programs, a graduate may be able to cancel all or part of their student loan. Contact the loan servicer to determine eligibility for cancellation or forgiveness.

Total and Permanent Disability: A student loan may be cancelled for total and permanent disability if the graduate is rendered unable to work by a condition that has lasted, or is expected to last, for a continuous, six-month period.

Loan Forgiveness for Teachers: A graduate may be able to have up to $17,500 of their subsidized or unsubsidized loan forgiven if the graduate is a new borrower who has been teaching full-time for five years in a low-income elementary or secondary school, or an educational service agency.

Public Service Loan Forgiveness (PSLF): This is a relatively new program that forgives remaining debt after ten years of eligible employment and qualifying loan payments. PSLF is available to people working in a wide range of public service jobs. They include working for federal, state, local, or tribal government, as well as 501(c) nonprofit organizations. Full-time service in AmeriCorps or the Peace Corps also qualifies. Only direct loans or other loans consolidated into a direct loan are eligible for PSLF.

Bankruptcy: Generally, student loans cannot be discharged through bankruptcy proceedings.

Armed with this knowledge, aspiring students can earn their degrees without going broke.

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The San Diego City Attorney's Consumer & Environmental Protection Unit prosecutes criminal and civil violations of California's unfair competition and other consumer laws committed in the City of San Diego. The Unit maintains a Phone Hotline for consumers to report possible violations. You can reach the Hotline at **(619) 533-5600.**