Foster Care to Success
AMERICA'S COLLEGE FUND FOR FOSTER YOUTH

Foster Care to Financial Success

Education Loans

Education is expensive, there's no doubt about it, but it is an investment in yourself and your future that will really pay off over time. Hopefully, you will be able to pay for much of your education with a combination of the Pell Grant, an ETV, and possibly some other scholarships or grants. It may be, however, that you need to take out some student loans in order to graduate.

There are several ways you can minimize your need for student loans right off the bat -

- Consider pursuing an associate's degree at a community college, either as the first step towards a bachelor's degree, or as an end in itself. Many community colleges partner with state colleges and universities to ensure that students with an associate's degree can transition smoothly into a four-year school. In fact, some states offer guaranteed admission to four-year schools to students with an approved associate's degree.
- Public four-year colleges may be much less expensive than their private counterparts; don't go to an exclusive private college if the public school offers the degree you want, unless the private school offers you an excellent financial aid package such as a "full ride."
- Make a plan from the beginning:
    - You can get the ETV until your 23rd birthday - that's up to five years
    - You can get the Pell Grant for 12 semesters - that's six years
    - Every school has required general education classes; get them out of the way in your first year or two while you determine a major. Get to know your academic advisor!
    - Keep your eye on the prize. If you choose the right school, select a major in good time, and pursue your degree step by step, you should be able to graduate with minimal loans.

You may, of course, still need to take out some student loans to defray the cost of tuition, fees, books and living expenses while you are a student.

When you first apply for college, and every year thereafter, one certain thing (like they say about death and taxes) is that you need to complete the **Free Application for Federal Student Aid (FAFSA).** It's from your answers on the FAFSA that your **financial aid package** is determined.

Your financial aid package offers you funding, hopefully enough to meet your school's cost of attendance - in other words, enough to pay your tuition, supplies, housing and meals.

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Very likely, your financial aid package will offer you loans. It's up to you to decide whether or not to accept them.

BEFORE YOU DO - today, students are required by the federal government to complete online student loan counseling BEFORE they accept any loans. Here's the link: https://studentloans.gov/myDirectLoan/counselingInstructions.action

There are several types of loans you may be offered:

- Subsidized Federal Stafford Loans - these are the best (or you could say least worst!) type of loan to accept. On a subsidized loan, the government pays your interest while you are in school, so that when you start paying it off later, you are paying off the exact amount you borrowed.
- Unsubsidized Federal Stafford Loans - interest starts to accrue the day you accept the loan, so that when you start paying it off down the road, the amount you owe is already bigger than what you borrowed.
- Federal Perkins Loans - these are granted by your school, based on the need of all the students at your school. No interest is charged while you're a student. One reason to complete your FAFSA as soon as possible is because you may be eligible for a Perkins loan, but your school may run out of funding.

The difference between a loan and a grant (Pell, ETV) or scholarship, is that ***loans have to be paid back***. When you complete your degree, you will have a six-month **grace period** before you have to start making payments on your loan. However, you are required to complete online loan counseling during the semester you graduate; your school will send emails out about this. Here's the link to federal student loan exit counseling : https://studentloans.gov/myDirectLoan/counselingInstructions.action

Some schools require you to take student loan counseling through their financial aid office as well; if this is the case and you don't do it, your diploma may be withheld.

Oh - and something else to remember: you have to pay back your student loans even if you don't graduate. Once you've been out of school for six months, whether it's because you graduated, stopped out or dropped out, you have to start paying back your student loans.

If at all possible, you should start making payments, even during your grace period. The sooner you start paying, the sooner you will pay off your loans. Besides that, there are other reasons to begin paying off your debt immediately:

- Subsidized Loans: On a subsidized loan, the government pays your interest during the grace period as well as while you're in school. Any payments you make during the grace period will be applied directly to the principal balance of your student loan, which lowers the total amount of interest you will have to pay over the life of the loan.

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- Unsubsidized Loans: Unsubsidized loans continue to accrue interest during the grace period so if you make payments during the grace period, you will reduce or eliminate interest that is added to your principal, thereby reducing the amount of interest you will have to pay over the life of your loan.

Here are some tips for repaying your student loans:

- If you have subsidized loans, check how much money you could save by paying during the grace period. (your lender can help you calculate these savings)
- If you have multiple student loans, consider whether or not consolidating (adding them together and making one payment) these loans is right for you. If you decide to consolidate, be aware that the process may take several months to set up. Be sure to continue making your payments as usual until your consolidation loan is completed. Here's the government website devoted to loan consolidation: http://www.loanconsolidation.ed.gov/
- Make sure you include your student loan payments in your monthly budget.
- If possible, set up your payments to be made by direct deposit from your bank account. This will ensure that you never forget to make a payment time.
- Keep your student loan information in a safe place for referral.

Possible repayment plans include:

- Standard Repayment Plan: Payments are a fixed amount of at least $50 per month for 10 years. You'll pay less interest for your loan over time under this plan than you might for some of the other plans.
- Graduated Repayment Plan: Payments are lower at first and then increase usually every two years. You'll pay more for your loan over time than under the standard 10-year repayment plan.
- Extended Repayment Plan: Payments may be fixed or graduated and the repayment period is up to 25 years. Monthly payments are lower than through a 10-year standard plan.
- Income-Based Repayment Plan: Your maximum monthly payments will be 15 percent of your **discretionary income**, which is the difference between your adjusted gross income and 150 percent of the poverty guideline for your family size and state of residence. The income-based repayment plan can stretch for as long as 25 years.
- Pay-as-You-Earn Repayment Plan: Your maximum monthly payments will be 10 percent of discretionary income.
- Income-Contingent Repayment Plan: Payments are calculated each year and are based on your adjusted gross income, family size, and the total amount of your Direct Loans.
- Income-Sensitive Repayment Plan: Your monthly payment is based on annual income. Your payments change as your income changes.

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Visit http://studentaid.ed.gov/repay-loans for all the information you need to successfully repay your student loans. Visit it BEFORE it's time to repay them! The bottom line, however, is that you need to read ALL of the information very carefully before you choose a repayment plan. And remember, an income-based plan may be easiest on your budget.

If you can't make your student loan payment, you should contact your lender immediately. You are not the first student who's been in this situation (believe me!) and the student loan people are accustomed to working out repayment plans that will fit your situation. Depending on your situation, you may be advised to consolidate your loans, change your repayment schedule, or alter your plan to one that adjusts payments to your income level or gradually increases your payment over time to compensate for lower earnings when you first start out on your career. The important thing is to not default!

The Public Service Loan Forgiveness Program is one option for lessening student loan debt for individuals who work full-time in public service positions. Some of the positions included are: law enforcement, public library services, public education, and emergency management. In order to receive this forgiveness, it is necessary to make 120 qualifying payments on the loans. The following kinds of loans are eligible for this program:

- Federal Direct Stafford/Ford Loans (Direct Subsidized Loans)
- Federal Direct Unsubsidized Stafford/Ford Loans (Direct Unsubsidized Loans)
- Federal Direct PLUS Loans (Direct PLUS Loans)-for parents and graduate or professional students
- Federal Direct Consolidation Loans (Direct Consolidation Loans).

More information can be found at http://studentaid.ed.gov/sites/default/files/public-service-loan-forgiveness.pdf.

Defaulting (failing to repay your loans) will hurt your personal credit rating and could prevent you from renting/buying a home, car, or other major purchase. Defaulting could also make you ineligible for certain jobs. Take a look at the consequences for defaulting on student loans:

- You will no longer be eligible to receive financial aid for education.
- Your loan may be sent to a collection agency
- Your total student loan debt becomes due in full – you won't even have the option of making installment payments.
- The defaulted loan is reported on your credit rating for up to seven years, lowering your personal credit score to a very low number.
- Your employer could be ordered to garnish your pay to repay your loans; this means they could be required to forward 15% of your salary to pay off your loan.

- The federal government will withhold any tax refunds from you and apply them to your loan balance.
- ***Even*** - you can't join the military, you can't join the Peace Corps, and you can't legally accept a job or move overseas.

Yes, it can be a pretty grim story.

So - make good decisions about school and about the loans you decide to accept. Understand the process. Understand what you're getting into. Because after all, education is expensive, but it is an investment in yourself and your future that will really pay off over time if you do well and borrow prudently.