

# COLLEGE BOUND

Helpful tips for getting into college and the smartest ways to pay for it.

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## What Parents and Students Don't Know About Student Loans

*Are families overspending on education and overdosing on student loans?*

By Ian Welham

I hope this doesn't come off as too harsh, but it's time for a little "tough love" on the topic of student loans.

Maybe it's because they haven't done the math. Or maybe it's because they don't want to know. But some parents and students don't want to face the reality of what it means to take on tens or hundreds of thousands of dollars of college debt.

I meet a lot of parents who say their strategy to pay the college bill is to take student loans. Few families these days can get through the college years without *some* borrowing. So if that's part of your strategy, that's fine. But if that's your **ONLY** strategy, I want you to understand what you're agreeing to, and the long-term consequences for you and your

student.

It's one thing when starry-eyed 18 year-olds say they're willing to take on \$100,000 of debt to finance their college dreams. They have no life experience to know how difficult these loans can be to pay back due to career prospects, performance of the economy, and any number of other unforeseen situations. They do not realize that carrying high debt can affect their ability to buy a car, land a job (some employers check your credit rating), get a mortgage, or even get married. (Who wants to say, "I do" when it means you're instantly 50% responsible for a six-figure debt?)

But what about Mom and Dad? Sadly, too many parents are as starry-eyed as their

students. Let's look at some of the facts about student loans. Some of these facts may surprise you.

### Return on Investment

While many college graduates will get good jobs and be able to repay their investment, that's not the case for all. Your ability to get a job and your expected income *must* be factored into the student loan equation, because this is what determines your ability to pay back the loan. A common rule of thumb is that your total borrowing should never be more than what you expect to make in your first job out of college.

Student debt is equivalent to a mortgage. I call it an "education mortgage." The

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# Spotlight On Emory University



Location: Druid Hills, GA

Undergraduates: 7,441

Male/Female: 45%/55%

Acceptance Rate: 26.7%

SAT Math Avg: 710

SAT CR Avg: 665

SAT Writing Avg: 685

ACT Composite: 31

Cost of Attendance: \$42,980

Average High School GPA: 3.79

First-year students returning: 96%

Students graduating within 4 years: 73%

## Fun Facts:

- Emory ranks highly in national college listings including *U.S. News & World Report* (20), *Washington Monthly* (22), and *Forbes* (45). In 2011, Emory was listed #1 on *USA Today's* "Top 10 best American colleges for writers" with the Goizueta Business School being ranked #3 by Bloomberg Businessweek.
- Playing in NCAA Division III, the Emory Eagles field 18 varsity teams and are best known for their successful swimming and diving team.
- Famous alumni include Alban Barkley, 35th Vice President of the United States, Newt Gingrich, 58th Speaker of the U.S. House of Representatives, Lee Hong-koo, 26th Prime Minister of South Korea, and Bill Haslam, the current Governor of Tennessee, along with members of the Grammy winning folk rock group the Indigo Girls and NASA astronaut, Sonny Carter.
- Distinguished faculty include CNN chief medical correspondent Dr. Sanjay Gupta, former U.S. President Jimmy Carter, and His Holiness the XIV Dalai Lama.
- The campus has been used for scenes in films such as *Road Trip* (2000), *The Dukes of Hazzard* (2005), *Into the Wild* (2007), and *Hall Pass* (2011).

Continued from pg. 1...

question I often pose to parents with multiple children is, "Can you afford a second home?" If not, you can't afford student loans at much higher interest rates.

## High Interest Rates

Congress is in control of student loan interest rates and they are set annually. Currently, the interest rate for the Federal Direct Stafford Loan is 6.8% (subsidized loans are at 3.4%), while parent PLUS loans are at 7.9% (plus 4% of the loan in fees). Interest rates for private loans are often higher. For most borrowers, this interest compounds while in school. By the time graduation arrives there is already a nice amount added to the balance of the loan, even before repayment begins.

Let's say you have 3 children and you borrow \$20,000/yr. for each student for each year they are in school. Monthly payments on a \$240,000 "education mortgage" at 6.8% interest are \$1,665.77 if paid back over 25 years (total payments equal \$499,731). If paid back over 10 years, monthly payments are \$2,761.93 and total payments are \$331,431.

## No Discharge of Loan - Limited Refinancing

Unlike the "old" days, you cannot discharge your student loans – even in bankruptcy. You cannot have these loans cancelled because you didn't like the education you received, didn't get a job in your field of study or you're having financial difficulty. Loans are legal obligations. If you get in over your head, you're stuck.

According to the *New York Times*, the number of student loans in default has grown substantially in recent years. To

wit, 5.9 million people have fallen at least 12 months behind in making payments.

Congress has limited the ways for student loans to be refinanced. This is another major difference in a student loan and a home mortgages.

Many people find this surprising, especially since we're in such a low interest rate environment. Why are student loan rates at 7 to 8 % while you can get a home mortgage in the 3 to 4% range? Shouldn't student loan rates be the *lowest* form of borrowing, since we're trying to encourage education?

Let me ask you: is there anything that Congress does that makes logical sense?

## When Do Interest Payments Start?

Government loans are either "subsidized" or "unsubsidized." The majority of loans are unsubsidized. For a subsidized loan, the Dept. of Education pays the interest while you're in school and during the first six months after you leave school.

For an unsubsidized loan, you are responsible for paying the interest that accrues from the time the loan is disbursed until it is paid in full. Or, you can allow the interest to accumulate while you're in school and have the interest added to the principal amount of your loan. This will increase the total amount that you have to repay because you will be charged interest on a higher principal amount.

Guaranteed student loans are like candy to wide-eyed college students who see loweffort, high-interest loans as the way to attain their educational dreams.

However, understanding the long-term ramifications of the "education mortgage" is imperative.

# Edison Student Scores Perfect 2400 on SAT!

*Third time is the charm as he achieves highest attainable score*



Shreyas Shirodkar is "Mr. 2400"

When Shreyas Shirodkar learned he'd earned a perfect score on the SAT, he logged back into the website several times to make sure he was correctly viewing his score.

He was!

On his third attempt of the nationally administered college entrance exam, Shreyas scored 800 on each section to achieve a perfect 2400 total. "I never really expected to get a perfect score. When I found out, I was at a loss of words," he replied.

The rare score was a surprise, but not a shock. Shreyas is valedictorian of his senior class at John F. Kennedy Memorial High School in Iselin, New Jersey. He is also a National Merit Semi-finalist, president of the Key Club, captain of the Math Team, president of the National Honor Society, and co-captain of the Quiz Bowl team.

His top college choices are Brown University's program in Liberal Medical Education, The College of New Jersey's seven-year medical program, Princeton University, and George Washington University's seven-year medical program.

His preparations for the test started during his sophomore year when the PSAT was on the horizon. During the summer before his junior year, Shreyas focused his study for the PSAT with practice tests along with learning upwards of 1000 vocabulary words. He describes his test prep strategy as being "not so much studying as practicing."

After his first score of 2230 on the SAT, he decided to try once more. Yet, even with an increased score on two sections, his overall score was actually lower than his first attempt. With some hesitation, he

registered again.

His preparation included about a month of vocabulary studies and a couple of practice tests. Shreyas never scored perfect on any of his practice tests throughout the process. "I didn't even expect it!" he stated about earning the perfect score. But it only takes a few minutes of discussion with Shreyas to realize his advanced intellect and maturity. He used these traits, along with focused practice and preparation, to hit the bull's eye on the final attempt.

Math is his favorite and strongest subject. He says, "I felt like I aced the math section." He also felt confident on the writing test due to hours of practice. Yet, time management became a factor on the critical reading portion of the exam. He felt rushed at the end as he was still answering questions with five minutes remaining. But, obviously, he finished strong.

Not really knowing how to go about announcing such a feat, at the suggestion of his parents, he relied on social media to tell friends and teachers. He recalls that his civics teacher walked into his biology classroom greeting him with, "I have to shake hands with Mr. 2400."

Does Shreyas have any tips he can share? He suggests reviewing two vocabulary books and reading an article on writing. He has dubbed *Direct Hits Core Vocabulary* and *Direct Hits Toughest Vocabulary* as must-reads for the English section. For the writing section, he advises reading SparkNotes, "The Seven Deadly Screw-ups." For math, he suggests practice more than studying.

When asked what wisdom he will share with his younger brother about taking the test, he replied, "I will tell him not to give up, especially since from my first to second test, my score actually dropped! I had decided that I was done with the SAT. However, my determination pulled me through."

## News You Can Use

- ✓ It's a good idea for students to get to know their admissions representative. Each applicant is assigned an admissions rep based on residential region and will be one of the first to read and review the application. A recent Huffington Post article explains how meaningful communication with the rep can have a strongly positive influence on the college applications process.
- ✓ Parents paying higher taxes this year shouldn't fret too much. Forbes recently reported that the formulas used to determine a student's need for financial aid, federal, state and FICA taxes that parents and students pay get subtracted from their respective incomes. In many cases, a higher tax bill can actually increase a student's eligibility for need-based aid.
- ✓ It seems many colleges are failing to do a good job of adhering to U.S. Department of Education policy requiring Cost of Attendance calculators appearing on websites. The Institute for College Access & Success reports that many college site's calculators are hard to find and difficult to understand, while others aren't even yet complying with the policy.
- ✓ Social Media is playing a larger role in college admissions. According to ABC News, admissions professionals are reviewing profiles of applicants during the selection process. College applicants should consider what content is viewable on all personal social media profiles and those of their friends. From questionable photos and videos to inappropriate language and other issues, all can have a negative impact on an applicant's chance of acceptance.



## Ask the Professor

**Q:** My home sustained damage during Superstorm Sandy. How do I replace ruined paperwork that will be needed during the application process?

**A:** Many storm victims have great loss of personal property, including the important documents generally necessary for applying to college. These can include birth certificates, immunizations forms, and/or tax documents. Most all documents of this nature can be replaced in a timely manner by the appropriate state and Federal agencies.

## Did You Know?



- ✓ According to the College Board, the average U.S. student attending college in 2012-13 will pay \$22,261. The figure is much higher for students in New Jersey.
- ✓ There are 124 teams playing in NCAA Division I Football Bowl Subdivision.
- ✓ Football is the only NCAA sport without a formal tournament to determine an undisputed national champion, but that's about to change.
- ✓ The first Greek-letter student society in North America was the Phi Beta Kappa Society founded on the campus of The College of William & Mary in Williamsburg, Virginia on December 5, 1776.

## College Match Game



Which college did singer Carrie Underwood attend?

- A) University of Oklahoma
- B) Northeastern State University
- C) Oklahoma City University
- D) University of Texas at Austin

Answer: The Grammy-winning former American Idol attended Northeastern State in Tahlequah, OK with a degree in mass communication specializing in journalism.



## Upcoming FREE workshops

December 12, 2012  
7:30 pm  
Presbyterian Church School, Westfield, NJ

Reserve your seat online at [www.ccpsnj.com](http://www.ccpsnj.com) or by calling (973) 467-0101. There is no cost to attend.



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