Student Loan Information

Regardless of when your child attends college and for how long, it is important to understand the different student loan scenarios. The following information is designed to give you the basics. For more detailed information and answers to your questions, please plan on meeting with us in person.

Student Stafford Loan

What is important to know about this loan is that "EVERY" student is eligible for this loan, regardless of family financial resources. All you have to do is be sure and fill out the FAFSA (Free Application for Federal Student Aid). It comes in two varieties – subsidized and unsubsidized.

If you qualify for need based aid then the loan could be subsidized. This means that the government will pay the interest charges during the child's college years (including if the student goes on to post-graduate study). Six months after graduation, or the child stops going to college for whatever reason, they will be required to consolidate the loan and start their repayment. For students entering college in 2013-14 the interest rate, once it has been consolidated, the unsubsidized rate is fixed at 6.8%. For subsidized loans the interest rate during consolidation has already been passed through 2013-14 at a rate of 3.4%. As of the summer of 2013 the student is entitled to $3,500 the first year, $4,500 the second year and $5,500 the junior and senior years totaling $19,000 of subsidized loans. In June of 2008 H.R. 5715 was passed allowing an extra $2,000 per year can be taken out, but only in the unsubsidized portion. In today's dollars if the student were to take out the Stafford Loan every year, totaling $19K, his/her repayment would be $210 per month for 10 years. With the extra $8,000 ($27,000 total) the payment would be about $310 per month.

If you are NOT eligible for "need based' aid then the loan is unsubsidized. This means that the interest during the will accrue during college. Our suggestion is to pay it during college and not let it accrue. This interest rate is set at 6.8% during college and during consolidation through 2013.

It should be noted that our suggestion is that every student take on this loan. Several good reasons for this; first, the student needs some 'skin' in the game. This will help insure that they graduate as soon as possible, learn some financial responsibility and help defer the parent's costs. Second, even if you have the money it delays the payment allowing you to take advantage of the 'time value' of money. The student will get to deduct the interest on their taxes when they graduate, you won't. The payment amount should not be large enough to create cash flow problems, assuming a decent paying job upon graduation.

If you are the type that doesn't want their child to leave college in debt (I can understand your position, especially if you are comfortable with your own future financial security) then I suggest you use the free one-hour visit to discuss how to do this without you coming up with the entire $27,000. When you come in ask me and I will provide you with the strategy.

Perkins Loans

These loans are provided to students in the low to moderate-income group and are only provided based on need. It is subsidized only, meaning the government always picks up the interest during the college years. You can borrow up to $5,500 a year and secure an interest rate of 5% (in payment years it stays fixed). In addition, you will not owe an origination or guarantee fee. The amount up to the $5,500 limit is determined by the college when your award is created. It is often used after the Stafford loan has been exhausted to help cover the extra student help needs. It is consolidated with the Stafford loan six-months after graduation and can be paid over a 10-year period.

General Information

Perkins and Stafford loans don't provide enough money to completely pay for the annual cost. Even at an Illinois state school the lowest cost of attendance today (6/13) is at $26,000 a year. The Perkins loan limits you to $20,000 for undergraduates and the Stafford is $27,000 for the four years.

So where do you get the extra financing? That's where private loans might be necessary. You must be careful with these type loans because the interest rates will vary and often times fluctuate over time. Be sure and determine the maximum rate that they will charge. Don't be lured by low introductory rates.

Usually the only way to guarantee a fixed rate is to use a federal loan. This is where the PLUS loan comes in; or Parent Loan for Undergraduate Students. This loan has a fixed interest rate of 7.9% for the life of the loan. One disadvantage to the PLUS loan is the fact that the payments must start 60 days after the loan is funded. If cash flow is tight, which it normally is during the college years, this can often become a problem after several years of accumulated borrowing. However, with H.R. 5715 parents now have the option to defer the repayment of PLUS loans up to six months after their children leave school. If this option is chosen the interest rate becomes 8.25%.

We believe that private student loans and PLUS loans for parents should be a last resort. Every strategy should be evaluated prior to taking on these types of loans. It is our job it to help with that evaluation and to explore all other alternatives prior to deciding.