

# College Loans: What You Need to Know

**Current U.S. Student Loan Debt:** <http://collegedebt.com/>

## PARENTS: Stop borrowing for college.

Though parents should be focusing on funding their own retirement, too many are dramatically risking their financial health with burdensome student loan debt: private debt or Parent PLUS loans. Last year, [the average PLUS loan balance was \\$35,600](#). Nearly one in three parents with PLUS loans struggled making at least one payment over five years; one in nine were in default.

Unlike student loans, [Parent PLUS loans](#) have no borrowing cap (other than cost of attendance less other financial aid), have higher interest rates and fees, and fewer options for repayment. Parent PLUS loans are NOT the best answer.

[Country Financial reports](#) that 56% of parents are willing to go into debt to pay their child's tuition, even \$31,000 in debt. Instead of jeopardizing their own financial well-being, parents should direct their student to contribute at least \$8,500 each year. Students can borrow up to \$5,000/year in direct Stafford loans at only 4.529%, and should work during vacations.

## STUDENTS: Minimize your student loan debt.

Students should plan to contribute at least \$3,500 annually from personal earnings and borrow no more than \$5,000/year. Families with less than \$160,000 in pre-tax income may also qualify for the full \$2,500/year American Opportunity Tax Credit.

**Student annual contribution \$3,500 + \$5,000 + \$2,500 = \$11K Paves the Way**  
**The Student's High School GPA + Test Score = Additional Student Aid**

Make every effort to pursue grants and scholarships first, as these college funds do NOT need to be paid back. Students (and parents) often don't fully appreciate the impact of student loan interest. The [U.S. Department of Education Repayment Estimator](#) can show what your post-graduate repayment plan might look like.

An interactive map from [The Project on Student Debt](#) shows how much debt students tend to graduate with from each state, or from a particular college. View or download a table with sortable options.

And, make sure you graduate on time! Students who take out loans but don't graduate are three times more likely to default, earn less lifetime income, and are more likely to be unemployed-- than borrowers who do graduate--according to a [2016 federal report](#).

*Loans are available from multiple sources, so research is key to find the best options for you. Federal and state loans generally have better rates and other benefits over private loans.*

## Federal Student Loan Programs

Federal loans are offered through the [U.S. Department of Education's](#) William D. Ford Federal Direct Loan Program. Four direct loan options are available:

[Direct Subsidized Loans](#) (also known as Stafford loans) are for undergraduate students with financial need. Your school's financial aid office calculates how much you can borrow, up to the amount of your financial need, each academic year. The government will pay the interest on your loan at three different times:

- When you are enrolled in school at least half-time.
- For six months after you leave school (grace period) by graduation or otherwise.
- During deferment (postponement of payments) by mutual agreement.

[Direct Unsubsidized Loans](#) (also known as Stafford loans) are similar, but are available to both undergraduate and graduate students, and do NOT require financial need. You are required to pay interest throughout the loan, even while you're still in school. Otherwise, the interest adds to the principal balance of your loan, effectively raising the amount of interest owed, making your loan more expensive. Subsidized loans should be your first choice, if available.

[Direct PLUS Loans](#) are for graduate students, professional students, or parents ([Parent PLUS loan](#)) of dependent undergraduates. Half-time enrollment or more is required. Borrowers must have either good credit or a creditworthy cosigner, or endorser, who must repay the loan if the borrower defaults.

[Direct Consolidation Loans](#) combine all eligible federal student loans into one loan with a single servicer and payment. The application process is easy and FREE, although some private companies may contact you with offers to help for a fee. Pros and cons exist when consolidating loans, so consider your individual circumstances before proceeding.

### **State Loan Programs**

Some states offer student and/or parent loans via state agencies or non-profits, with interest rates that are more affordable than Parent PLUS or private loans. Students should always consider grants and scholarships first (gifted funds which do not require repayment) and federal loan options prior to applying for private student loans. Some state loan programs offer fixed rates while others may vary by credit score. Student loans, family loans or refinance loans, as well as loan forgiveness or reimbursement programs in exchange for service may be offered.

Every state has at least one [Higher Education Agency](#), within a state government department, which oversees state financial aid programs for higher education. [OTC's State Financial Aid](#) includes links to state loan programs by state.

### **Private Student Loans**

Always maximize your grant, scholarship, and work study options (working no more than ten hours per week during school, if possible), and borrow from federal or state loan programs first, before using private loans.

If you still need to borrow money for school, compare offers from multiple private lenders to find the lowest interest rate. [NerdWallet](#) regularly compares rates from prominent lenders. Consider fixed vs. variable rates, protections and repayment options. You may need a co-signer with good credit to qualify. Again, OTC does not recommend anyone but the student borrow and no more than \$5,000 per year.