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DOWNEASTER COMMON SENSE GUIDE TO

STUDENT LOANS

State of Maine
Bureau of Consumer Credit Protection
Department of Professional and Financial Regulation

Maine Bureau of Consumer Credit Protection

Toll-free Maine Consumer Assistance
1-800-332-8529 (1-800-DEBT-LAW)
TTY users call Maine relay 711

Maine Foreclosure Prevention Hotline
1-888-NO-4-CLŌZ
(1-888-664-2569)

www.Credit.Maine.gov

The Maine Bureau of Consumer Credit Protection was established in 1975 to enforce a wide variety of consumer financial protection laws, including:

-Consumer Credit Code

-Truth-in-Lending Act

-Fair Credit Billing Act

-Truth-in-Leasing Act

-Fair Credit Reporting Act

-Fair Debt Collection Practices Act

-"Plain Language" Contract Law

The Bureau conducts periodic examinations of creditors to determine compliance with these laws; responds to consumer complaints and inquiries; and operates the state's foreclosure prevention hotline and housing counselor referral program. The Bureau also conducts educational seminars and provides speakers to advise consumers and creditors of their legal rights and responsibilities.

William N. Lund
Superintendent
October 2014

DOWNEASTER COMMON SENSE GUIDE TO STUDENT LOANS
By David Leach, MPA and Kristin Kirouac
Editing and Production by Steven Lemieux, MBA
Illustrations by Edward Myslik
Photography by George Serdechny**,** Steven R. Dunn & Khanh Vo
The BCCP wishes to extend a special "Thank you" to the University of Maine for the use of their image of Stevens Hall on the front cover.

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Bureau of Consumer Credit Protection | State of Maine
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Dear Students, Parents and Guardians,

The Maine Bureau of Consumer Credit Protection is pleased to present the *Downeaster Common Sense Guide to Student Loans*. One of our charges as a government agency regulating the financial services industry is to provide factual, unbiased information to consumers so they can make informed choices about credit and loans.

For too long, students and their parents/guardians have approached student loan debt as an inevitable rite of passage from adolescence to adulthood. The belief that "student loan debt is OK, because a college degree leads to a brighter future and greater earning power" prevails among many prospective college students. This statement, however, is both true and false. While it is hard to deny that a post-secondary education generally leads to greater earning potential as an adult, and that education should be a lifelong goal for all of us, students and co-borrowers must achieve "balance" when determining how much debt is affordable. In other words, you should thoroughly contemplate the realities of student loan repayment before signing your name to the promissory note.

This booklet provides valuable information to assist you in making the best possible decision on how much student loan debt, if any, is right for you. As Maine college graduates ourselves, we share with you both our experiences and the experiences of others who have already traveled the academic road upon which you will soon embark. This guide is also designed to assist college graduates who are already in the repayment period of their loans.

We hope that the information presented in the updated second edition of this guide will help you better understand the student loan industry, as well as the consequences of debt, so that you may carefully measure the pros and cons of the many college choices available to you.

Sincerely,

David Leach, MPA
Principal Examiner

Kristin Kirouac
Margaret Chase Smith Summer Intern, 2012

Maine residents can obtain additional free copies of this booklet by contacting the Bureau of Consumer Credit Protection at 207-624-8527 or toll-free at 1-800-332-8529. Non-Maine residents may purchase the publication for $6 per copy, or at a volume discount of $4 per copy on orders of 50 or more. Shipping fees are included in the prices listed.

Pop Quiz: Test Your Student Loan Knowledge!

1. Tuition has increased each year at a rate much greater than inflation.

   True False

2. There is no fee to apply for federal aid online.

   True False

3. Federal student loans carry a much higher interest rate than private student loans.

   True False

4. It is possible to pay $0 per month without going into default on federal loans.

   True False

5. It is impossible to owe more on your loans than you originally borrowed.

   True False

6. Scholarship applications sometimes require an application fee.

   True False

7. The average college student graduates with no credit card debt.

   True False

8. You generally cannot discharge your student debt by filing bankruptcy.

   True False

9. If you wait long enough, you cannot be ordered by a court to pay your loans back after a certain period of time.

   True False

10. You will always pay less at a state school that charges lower tuition rates.

    True False

Answers: 1) True 2) True 3) False 4) True 5) False 6) False 7) False 8) True 9) False 10) False

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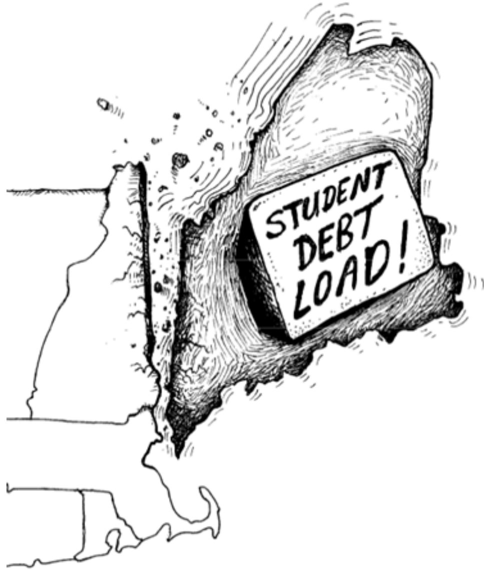
Introduction

The Big Picture



Student Loan Debt Across the Nation and Our State

For the first time in history, **consumers** now owe more on their student loans than they owe on credit cards. In May 2012 the total student loan debt in the United States reached $1 trillion. This figure depicts an even larger trend: that the past decade has seen an enormous surge in student borrowing in response to the rapidly increasing cost of pursuing a higher education. While students who graduated from college in the year 2000 carried an average debt load of $17,350[1], the average debt upon graduation in 2010 rose to $25,250. In a mere decade, students are carrying 46% more debt than those who graduated in 2000. A significant portion of those **borrowers** (10%) owed between $50,000 and $100,000 in student loans[2]. Imagine if educational costs and student borrowing increased by this same amount in the upcoming decade…the average debt load of a 2020 graduate would be $37,000!

While the exorbitant amount of student debt carried by young people across the nation is troublesome, recent statistics show that Maine students are in an even more precarious situation than their peers in other states. Upon graduation, students in Maine owe an average of $29,143, with 65% of all students attending college in the State of Maine having taken out loans to finance their education. Thus, Maine has the second highest average student debt load in the country, trailing only New Hampshire.

The "big picture" of student debt across the U.S. and in the State of Maine encompasses much more than a mounting volume of student loans. In fact, the student debt problem is exacerbated by a number of other

Maine has the second highest average student debt load in the country. Upon graduation, students in Maine owe an average of $29,143, with 65% of all students having taken out loans.

issues, such as constantly rising tuition prices, unemployment and under-employment of college graduates, cuts to federal and state financial aid, and the misguided belief that student debt is "good debt". This chapter will introduce the nature of the student debt problem, how and why it has come about, and the implications it will have for Maine students and their families.

Pros & Cons of the Student Loan Industry

The expansion of the federal loan program since the 1990s has undoubtedly made higher education more accessible to students across all income backgrounds. The increased availability of federal loans essentially provides a quick credit fix: students who normally would not have had the financial means to attend college can now easily borrow money to finance their education. This easy credit, however, does not come without high cost to the student and his or her family after graduation.

As the title of this chapter implies, the student lending business is indeed an industry, comprising both public and private lending sources. While student loans have ensured easier access to schooling for those who choose to borrow the money, such loans have also contributed to the huge rise in postsecondary educational expenses, at a rate well in excess of inflation. According to the non-profit organization FinAid.org, as a rule, tuition at public universities increases at twice the rate of inflation, or approximately 8% per year[3]. This means that the cost of college has doubled every nine years[4].

Rising college costs are part of a more far-reaching problem that we refer to in this guide as "**public inflation**." This represents the theory that when loans and credit are easily available, that availability may actually lead to an increase in price of the good or service being purchased. In other words, access to student loans may be a factor in increased tuition costs. It is easy to see how these tuition hikes can be tied to the ease of acquiring student loans, as this phenomenon is not unique to higher education. For example, automobile prices increased sharply once most consumers stopped paying for their vehicles in cash, and started relying on bank credit and longer repayment **terms** to finance their vehicles. In this same way, a tremendous growth in the availability of student loans, both federal and private, has allowed colleges to substantially increase their tuition each year without losing enrollment.

Boom and Bust in the Private Loan Industry

The past decade saw a rapid growth in the private student loan market, followed by an even more drastic decline. From 2001 to 2008, the private student loan market increased from just under $5 billion to over $20 billion, and then subsequently contracted to under $6 billion after the financial crisis of 2008. A recent joint report by the Consumer Financial Protection Bureau (CFPB) and the U.S. Department of Education reveals that students were hurt by the **subprime lending** practices leading up to the Great Recession, just as

Figure 1.1 Annual Tuition Increases at the University of Maine from 1999-2012 vs. Inflation (Public)*

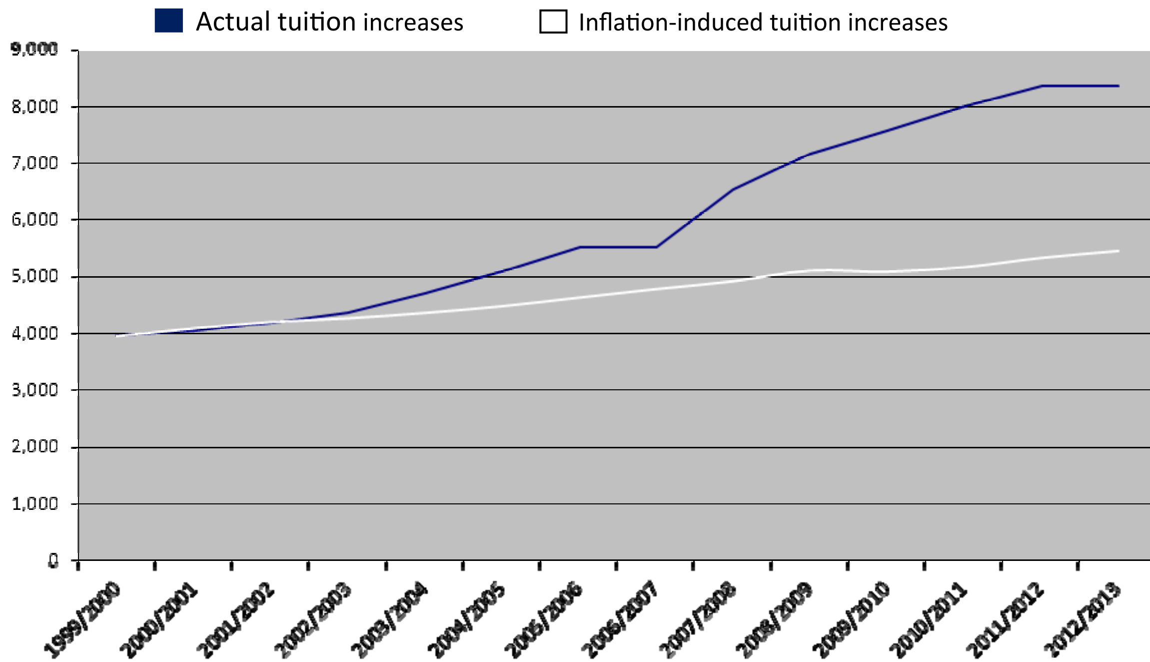
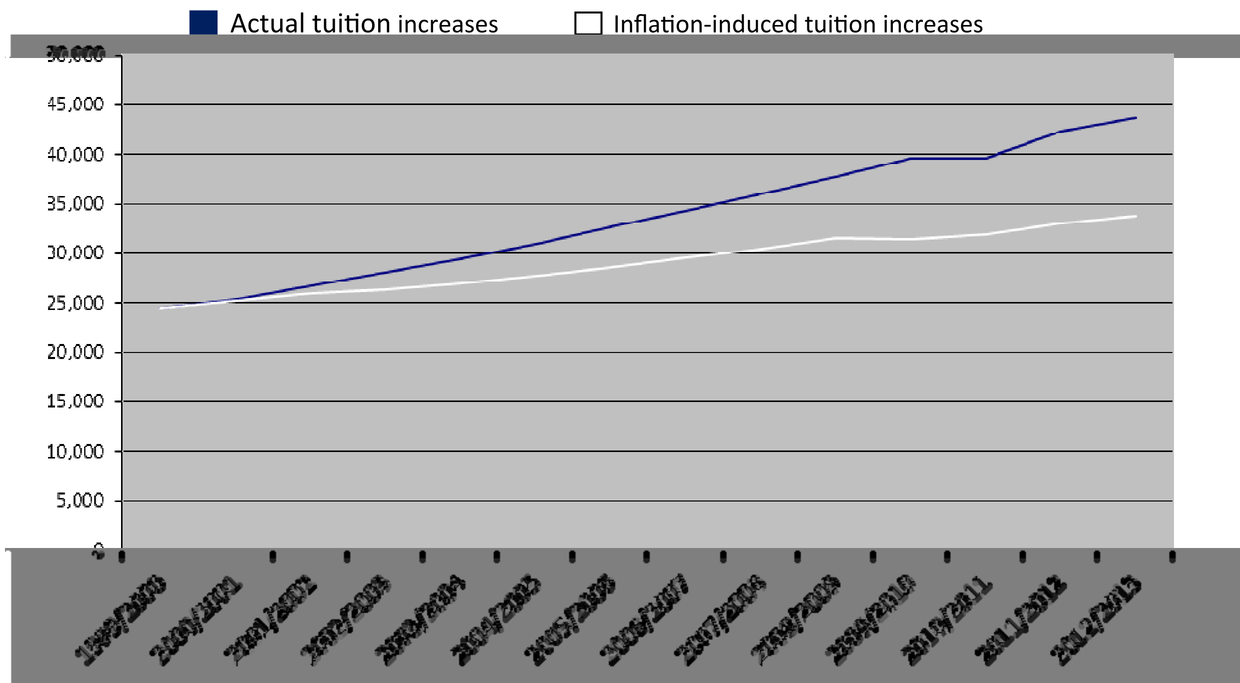


Figure 1.2 Annual Tuition Increases at Bowdoin College from 1999-2012 vs. Inflation (Private)*



**The top lines on these graphs represent values taken from official published data on the tuition fees of the respective public and private Maine schools. The lower lines demonstrate how tuition would have increased if it had done so in a manner consistent with general inflation. To determine these figures, tuition rates at the University of Maine and Bowdoin College from 1999/2000 were entered into the Department of Labor's CPI Inflation Calculator and adjusted for each year.*

homeowners were.

Before 2008, private student loan lenders were making profits by issuing loans to students and then bundling and selling this debt to investors to avoid assuming risk if borrowers were to **default**[5]. After the crisis, investors became much more leery of the security of these investments and began to pull out of the private student loan market. Consequently, underwriting standards tightened up again and loan volume decreased, as lenders now had more to lose when borrowers defaulted. This risk taken by lenders, however, was nothing compared to that taken by the borrowers of these subprime loans. The Bankruptcy Reform Act of 2005 made it nearly impossible to **discharge** private student loans through bankruptcy, a relief option that is possible with nearly any other kind of consumer debt. Therefore, many borrowers who took out subprime private student loans between 2004 and 2008 are now repaying very high-cost loans that they will never be able to discharge through bankruptcy. While the private student loan market has improved since this time period, it is still fraught with high variable interest rates and a lack of basic consumer protections and repayment options.

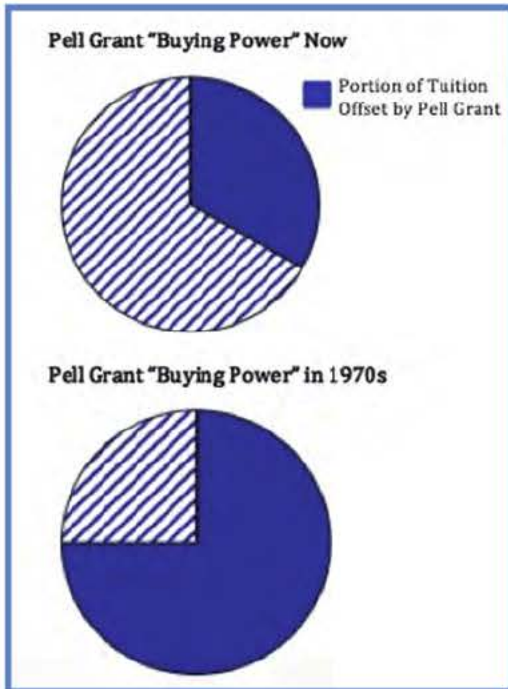
Federal and State Financial Aid Shortages

Rapidly increasing tuition and fees at both public and private colleges have seriously outpaced not only annual family incomes, but federal and state financial aid funding as well. Students are often advised in high school to apply to the "school of their dreams" and to

disregard the **sticker price** of a school (due to the availability of grants and scholarships to offset the cost of education). While it is true that these programs exist, they represent a much smaller portion of total educational costs than students are led to believe.

When tuition prices were significantly lower in the 1970s, Pell Grants for low-income students covered approximately 75% of the total cost of tuition and fees at the average public university. Today, they cover merely a third of total tuition expenses, leaving low-income students to finance the majority of the bill with some outside scholarships and a lot of loans. The "buying power" of the Pell Grant has significantly diminished with respect to increasing tuition. At the same time that tuition is skyrocketing, federal financial aid is making a negative socioeconomic transition. Over the past 40 years, resources have been gradually taken away from grant aid for low-income students, and reallocated to loans for the lower and middle class as well as tax breaks for the upper-middle class[6].

Figure 2.
Decline of Pell Grant Buying Power



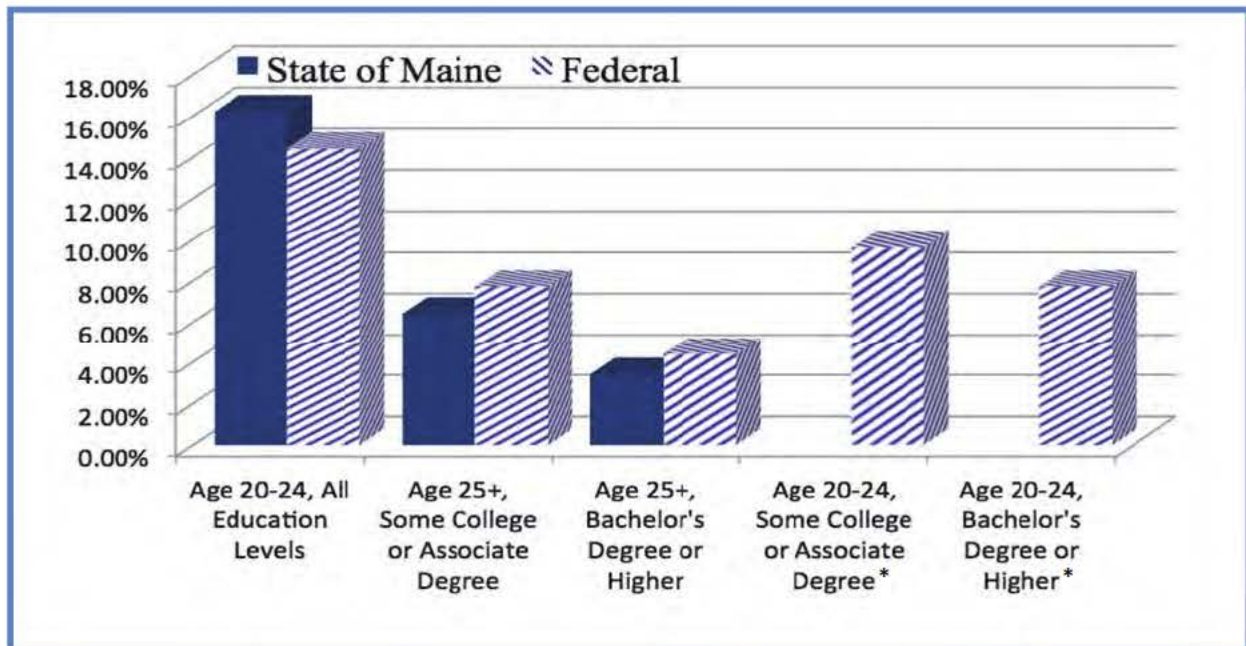
State Appropriations to Public Colleges and Universities Limited

Budget shortfalls in many states have also affected public universities and their students. Over the past decade, cuts have been made to state grant aid programs across the nation. This impacts both low-income students and middle-income students (the former of which rely heavily on state aid given their ineligibility for federal grant aid). The decreased amount of state funding to schools, in many cases, has resulted in students paying more in tuition. This has led to higher student debt loads.

Unemployment, Underemployment of College Graduates

Unfortunately, the weight of the debt itself represents only one of many economic

Figure 3. Maine, Federal Unemployment Rates by Age and Educational Attainment



**Unemployment rates for college graduates aged 20-24 in the State of Maine are currently unavailable due to a lack of research on this demographic. We estimate that it is slightly higher than the national average for this group.*

challenges faced by college graduates. Unemployment has proven to be a great obstacle for many recent graduates who, within six months of the end of their studies, must find a steady source of income in order to begin to repay their educational debt. Recent figures from the Bureau of Labor Statistics and the Maine Department of Labor[7] indicate the following trends:

- Workers aged 20 to 24 years are hit harder by unemployment than any other age group.

- Those holding a bachelor's degree or higher, who are also aged 25 and older, experienced a significantly lower unemployment rate.

- Recent college graduates aged 20-24, with a bachelor's degree or higher, fell in between these two extremes. In 2011 the unemployment rate for this group was estimated to be 7.7% at the national level[8].

The unemployment rate itself, while significant, does not take into account those individuals who are unable to find gainful employment in their field after school. In fact, many college graduates struggle to find any type of full-time job immediately after graduation. A study performed by Rutgers Center for Workforce Development revealed that only 1 in 2 recent college graduates is employed full-time, while the other half is either working part-time or attending graduate or professional school.

Half of all new college graduates take jobs that do not require a college degree because they are unable to find employment in their field of study. For those who were able to gain full-time employment, the median salary earned was $28,000, which is $3,000 less than the median salary earned by those who graduated before the recession began in 2007[9]. Moreover, half of all new college graduates take jobs that do not require a college degree[10].

Prospective college students are seldom encouraged to contemplate the possibly bleak future of the job market. Many students, as well as their parents, see a college diploma as the equivalent of a ticket to a cozy, high-earning middle class lifestyle. This idea is reinforced by informational brochures from colleges and universities, financial aid departments, high school guidance offices, and even the federal Department of Education. At one time in our history it may have been the case that a college degree would almost certainly guarantee future financial success. Today's recession-era job market, however, brings much less certainty than in decades past. According to the Economic Policy Institute, graduating into a weak economy has both short-term and long-term financial consequences. Among these are reduced earnings, greater earnings instability, and more spells of unemployment over the 10 to 15 years following graduation[11]. This loss in earnings can be as much as 9% for those graduating in a recession, as compared to those graduating during more prosperous economic times[12].

The implication of this chapter is <u>not</u> to undermine the economic value of a college degree, even given that the job market is currently shaky for college graduates. Job prospects and average earnings are still

significantly better for college graduates than for those who have no postsecondary education (see Figure 3, pg. 5). However, prospective college students must at least be aware of the possibility of postgraduate **under-employment**, or even unemployment, so that they may make an informed decision on how much money to borrow for school. Lack of full employment greatly affects one's ability to repay student loans.

Dispelling the "Good Debt" Myth

In early 2012, the federal Secretary of Education stated during a press briefing that student loan debt is "a very good debt to have," citing the increased **earning potential** that comes with obtaining a college degree[13]. However, it is the degree, not the debt, which leads to a better salary and career opportunities. Debt is an anchor that severely limits opportunity and major purchases.

While it is true that investing in a higher education usually brings great rewards, it is also important to consider the downside of taking on a mountain of debt. Young adults are borrowing large amounts of money to finance educations that they cannot afford because they are convinced that "it will all pay off." The trouble is that many have little comprehension of just how the loans will be paid off. Consider the following: a student who graduates with a debt of $100,000 from school will be required to make payments similar to a monthly homeowner's mortgage. Thus, graduating with a huge debt from college is like having to pay for the cost of an entire new house, except of course, you don't have a house. Furthermore, borrowers with such a high student loan debt will find it very difficult to purchase a home for years. A recent *New York Times* article revealed that student debts are forcing many borrowers to postpone purchasing a car or home, renting their own apartment, and even getting married and having children[14].

Consumer Credit Troubles on the Horizon

Many recent college graduates (traditional students aged 21 to 24) are in the unique, disadvantageous position of starting their work careers with relatively low salaries, with little, if any, established credit history. Due to a lack of credit history, as well as high student loan balances and corresponding monthly payments, young graduates often have low credit scores (less than 620). For this reason, they frequently delay major purchases that their parents and grandparents may have been able to afford at this same age.

Lenders reviewing loan applications for a vehicle, a first home, and most other types of consumer credit, will calculate the borrower's **debt-to-income ratio** — simply by dividing the applicant's monthly debt (including the proposed new loan payment) by the net or gross monthly income of the applicant. Many recent graduates saddled with high student loan debt will face being turned down for consumer loans, for which the notice (adverse action) may read, "Denial — Excessive Debt." Furthermore, one's ability to make consumer purchases is not the only consideration for individuals with low credit scores. Given that potential employers increasingly use credit

scores as a gauge of an applicant's financial responsibility, graduates may even find themselves denied a job because of their poor credit. A study by the Society for Human Resources Management showed that 60% of employers surveyed check the credit history of job applicants, while 13% check the scores of all applicants15. Fortunately, most employers are not checking the actual **FICO score** of the applicant, which would be greatly affected by a high student loan volume. They are more concerned with delinquent accounts, such as defaulted student loans.

About This Booklet

To attend college is, inevitably, to make a major financial commitment; one that can last for decades. A high student loan debt may follow you into your middle age or beyond. Approximately one third of the nation's trillion dollar student loan debt is owed by Americans over the age of 40[16], and a smaller portion even affects senior citizens, especially if they co-signed loans for children or grandchildren. Our agency has observed that student loan debt has become an increasingly challenging aspect of life for many Maine consumers. In fact, homeowners working with our agency to prevent foreclosure often cite crippling student loan payments as a significant factor in their inability to pay their mortgages.

For most, the decision to attend college will involve borrowing to offset the cost of tuition and other educational expenses. Although we have cautioned against the consequences of a high student loan debt, and will continue to do so throughout this booklet, we realize that for most students some borrowing will be necessary. Thus, the following chapters will guide you and your parents through the process of selecting a college and major based on reducing, to the extent possible, the **net cost**, as well as applying for grants and other financial aid in order to reduce your dependency on loans. The guide will also aid you in selecting the lowest-cost and lowest-risk loans available, if borrowing is necessary, and selecting the most appropriate repayment plan for your financial situation after college.

There is a lack of critically important information made available to students and their parents on loans, financial aid, and the consequences of debt and nonpayment. This lack of information and financial literacy is central to the student debt problem. We address this issue by providing the facts you will need to know before signing your name to the **Master Promissory Note** setting forth the terms of your student loan. While other student loan publications issued by the lending industry and colleges may encourage students to borrow as much as possible, our consumer protection agency urges students to take a more sensible, pragmatic approach designed to avoid excessive debt burdens later in life.

Chapter 1

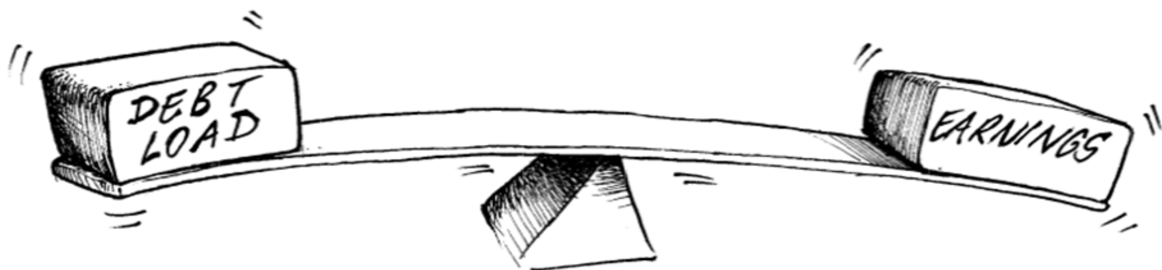
Choosing a School and a Major

A postsecondary education is an **investment** in the future. As with any investment, there are certain risks involved, and one must be fairly certain that the money invested will produce a substantial financial return. Under most circumstances, a college education is a non-depreciable **asset** that produces wealth over time. According to recent figures from the College Board, a college graduate can expect to earn approximately 66% more than a high school graduate over a 40 year working period[17]. It is possible, however, to make an unwise investment in your education by choosing a debt load that is unmanageable in relation to the projected salary of your field of study. The following section explains how your choice of school and major will affect lifetime earning potential and your ability to repay your loans.

Finding a Balance

A certain degree of balance must be sought when choosing a college and major field of study. This can be achieved by coordinating your post-college earning ability with the size of your total student loan debt and monthly loan payment. Students who choose a medical profession such as a general practitioner, physician, surgeon or physician specialist often find themselves with an enormous student loan debt but higher earning potential. Students who choose fields that traditionally offer less financial rewards may want to exercise caution when considering pricy out of state universities or some private colleges. For example, incurring a $60,000 debt load for a degree in secondary education may be an unwise investment, given that this debt load nearly twice exceeds the typical starting salary of a public school teacher.

Students should always ask themselves these crucial questions before borrowing money for school: "What is the most economical and reasonable approach to post-secondary education?" and "Given my anticipated profession, will I be able to make my monthly student loan payment with expected post-college living expenses?"



Consider Choosing a School Based on Cost

Your choice of school will be one of the most significant factors in determining how much debt you carry when you graduate. Stark differences in tuition and fees, room and board rates, the location of the school, campus **endowment** and financial aid policies are all factors that can make one school exceptionally more expensive than another. Average total debt from one campus to another ranged from $950 to $55,000 per student in 2010[18].

Location is becoming increasingly more important as a predictor of the actual cost of a school. Recent trends reveal that colleges with the highest average student loan debt are located in the Northeast and Midwest, while the lowest debt colleges can be found predominantly in the West[19]. Colleges and universities located in larger metropolitan areas also tend to charge more for both tuition and room and board. Average debt loads vary greatly by state and region.

Great discrepancies exist in pricing between public and private schools. Many private schools publish prices that are up to two to three times higher than tuition prices at state schools. These sticker prices, however, are not the most accurate predictors of net cost (remaining cost after financial aid is deducted) or future debt amounts.

In fact, sometimes a private school with a higher sticker price will actually cost the same as or less than a state school, when speaking in terms of net cost, due to the private school having a higher endowment for school-based financial aid. Schools that are more endowed generally give out better financial aid packages with higher percentages of gift aid, especially to low- or middle-income students. Higher endowments often allow schools the capacity to meet a greater portion of the student's financial need. As of October 2011, all colleges and universities are required to provide a net cost calculator on their website so students may make a choice on which school to attend based on how much financial aid they will most likely receive, and how much they will have to pay out of pocket or with loans.

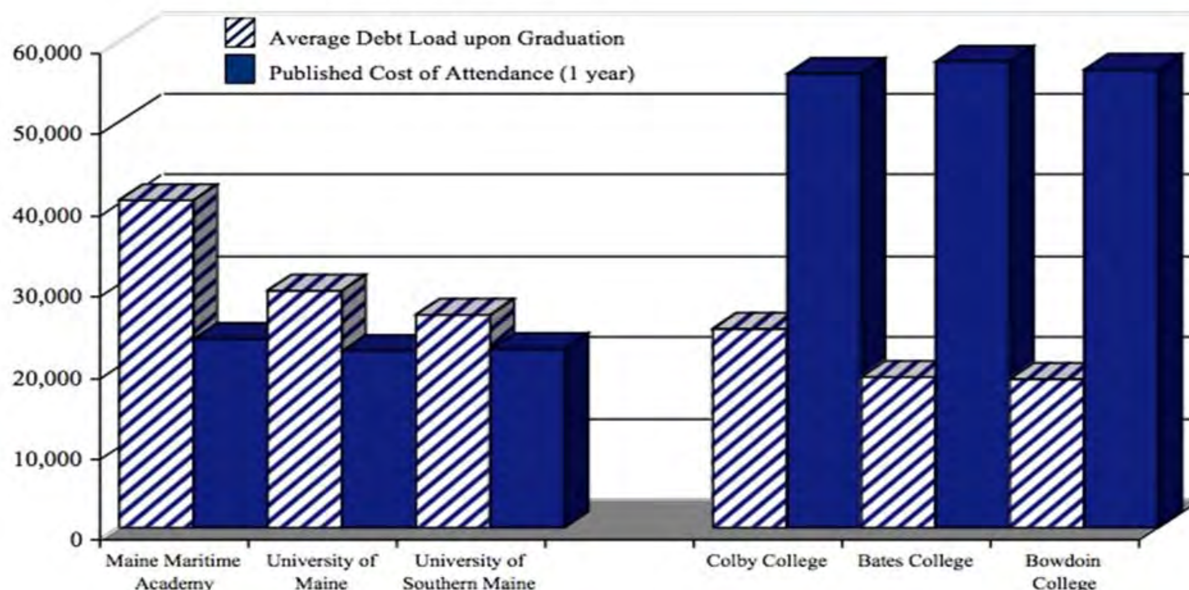
Public vs. Private: Facts & Figures

Many reading this guide will be wondering how a private college that charges up to 60% more in tuition, fees, room and board could actually graduate students with less average total debt than a public school. The following figures demonstrate how varying levels of endowment, student body affluence, and the ability of a college to meet a student's financial need play a role in "average total debt load" upon graduation.

Spotlight On Bowdoin & Colby

Bowdoin College and Colby College are two of the many colleges across the country that have enacted a "no loan policy." Under this policy, loans were eliminated from the financial aid packages awarded by the schools, and replaced by grants and work study funds. Thus, those who demonstrate a great financial need do not need to borrow money to pay for their education.

Figure 4. Average Debt of 2010 Graduates from Maine Public & Private Schools[20]



The chart above demonstrates that public universities (left) do not always have a lower net cost for students than private schools (right). Due to a number of factors, public universities often graduate students with more debt, despite having significantly lower "sticker prices" (demonstrated as **cost of attendance**) than private colleges.

Endowment per Student

As demonstrated in Figure 4, some of the private colleges in the State of Maine with the highest tuition and fees also have the lowest average student debt loads. Figure 5 (pg.12) demonstrates one of the reasons for which this may be so. Private colleges tend to have higher total endowments, as well as lower enrollment, which create an ideal ratio for "endowment per individual student." Public institutions, which often have lower endowments and significantly higher enrollment, are faced with the challenge of having fewer funds to put toward financial aid for individual students.

Student Body Affluence & Reported Debt

When assessing reasons why one college or university has a lower reported average debt (net cost), it is equally necessary to consider the diverse demographics of students attending the institutions being compared.

Figure 6 (pg. 12) demonstrates a relationship between the affluence of the student body of one school and the average debt load, for the simple reason that at schools where students represent a higher economic bracket, parental financial support is generally higher. Examination of the percentage of students receiving Pell Grants at private institutions in Maine, as compared to public, reveals that family wealth is most likely a significant factor. Low-income students are far less represented at the private colleges than at the public

Figure 5. Endowment per Student (From Highest Average Debt Load to Lowest)

College or University	Endowment (2010)	Student Enrollment	Endowment per Student
Maine Maritime Academy	$12,136,494	933	$13,008
University of Maine	$54,467,000	9,183	$5,931
University of Southern Maine	$25,453,000	7,561	$3,366
Colby College	$502,076,000	1,825	$275,110
Bates College	$198,547,532	1,725	$115,100
Bowdoin College	$753,525,000	1,762	$427,653

Figure 6. Relationship Between Student Body "Affluence" and Reported Average Debt[21]

College or University	Pell Grant Eligibility	Proportion With Debt	Average Debt Load
Maine Maritime Academy	31%	86%	$40,375
University of Maine	27%	75%	$29,143
University of Southern Maine	27%	61%	$26,249
Colby College	8%	37%	$24,600
Bates College	10%	36%	$18,699
Bowdoin College	13%	43%	$18,299

Figure 7. Financial Aid: Met Need, Fully Met Need, Average Awards

College or University	Average % of Need Met	% of Students Whose Need Fully Met	Average Award*
Maine Maritime Academy	46%	9.1%	$9,017
University of Maine	76%	30.6%	$11,818
University of Southern Maine	56%	7.3%	$10,296
Colby College	100%	100%	$33,838
Bates College	100%	94.4%	$35,741
Bowdoin College	100%	100%	$39,484

universities.

Financial Aid: Met Need

Again, due to higher endowments (more financial aid money to give) and student body affluence (less need to meet), private colleges are able to grant significantly larger yearly aid awards to those who need it. Consequently, students graduating from these schools are often less indebted than their peers attending public universities.

Private, For-Profit Colleges

Prospective college students must exercise caution when considering attending a private for-profit college, including online schools. These colleges often use aggressive recruitment techniques to persuade low-income students to enroll in their programs in order to maximize enrollment, and in turn, draw more **Title IV federal funding** to their school. According to a report by the National Bureau of Economic Research, for-profit colleges do not always give students the most "bang for their buck." In fact, students attending for-profit colleges generally graduate with more debt, have a harder time finding a job after graduation, and earn less money than graduates of public or private nonprofit colleges[22]. Due to a combination of these factors, nearly half of all defaults on student loans originate from for-profit schools, despite the fact that students from these schools only represent 10% of the national college student population. Moreover, 26 percent of for-profit college students who took out between $5,000 and $10,000 in student loans ended up defaulting, compared to 10 percent of students taking out that much at community colleges and 7 percent at four-year schools[23].

Nearly half of all students in the United States who default on student loans attended for-profit private colleges.

Many for-profit institutions refuse to disclose their tuition rates online or by phone, making it difficult for students to make price comparisons. For this reason, our agency published annual tuition rates of some of the most prominent private for-profit colleges in the State of Maine, along with graduation rates for students who began college in 2008. As shown in Figure 8 (pg. 14), for-profit private colleges often charge higher tuition rates than a public 4-year university.

Community Colleges

Enrolling in a community college is a cost-effective way to obtain a two-year degree. Annual tuition at community colleges is much lower than tuition at both public universities and private for-profit colleges granting two-year degrees (See Figure 9, pg.14). Community colleges may be a good alternative for non-traditional students who wish to study and work full time, as it is much easier to integrate a community college class schedule into a daily work schedule. Community colleges hold classes during the day and at night.

Figure 8. Private, For-Profit Colleges in Maine: Annual Tuition and Graduation Rates[24]

College or University	Annual Tuition (2011-2012)	Graduation Rate
Kaplan University	$11,115	18%
Beal College	$15,840	28%
InterCoast Career Institute	$31,240	73%
Northeast Technical Institute	$28,200	90%
Empire Beauty School	$15,000	51%
Seacoast Career Schools	$11,920	67%

Figure 9. Community Colleges in Maine: Annual Tuition and Graduation Rates[25]

College or University	Annual Tuition (2011-2012)	Graduation Rate
Central Maine CC	$11,115	18%
Eastern Maine CC	$15,840	28%
Kennebec Valley CC	$31,240	73%
Northern Maine CC	$28,200	90%
Southern Maine CC	$15,000	51%
Washington County CC		
York County CC	$11,920	67%

TIP: Save Money with Transfer Credits

Some Maine students enroll in expensive out-of-state or private colleges immediately after high school and realize afterward that the survey level courses (such as psychology, sociology, math, and entry level science and humanities courses) taken during their first year could have been completed for much less money at a nearby public or community college. Did you know you can save half or more in tuition and room/board expenses (if living at home) using this strategy for your first year or two of college?

Many students choose a lower-cost solution for their first year or two and then transfer to their "first choice" school with 15-30 "discounted" credits. This can greatly lessen your overall student loan debt, as well as strengthen your application to your first choice school. You may also opt to go to your first choice school right away, and then take a small summer course load at a community college in order to save in tuition and lighten your school year course load. Of course, while this method has the potential to save you a great deal of money, it is not foolproof. For example, it is likely that credits earned at a community college may not transfer to an Ivy-league school such as Princeton University, given the differences in rigor between the courses. Always check the transfer credit policy with the college you intend to transfer to before enrolling in courses. If the school does not accept the transfer credits, you will end up paying twice for the same class.

For-Profit Schools vs. Community Colleges

Tuition at private for-profit schools is often much more expensive than at two-year community colleges and four-year public universities. While public community colleges and private for-profit colleges alike struggle with low retention and graduation rates, students at for-profit schools are more likely than those who attend a community college to attain a short-term certificate or diploma of two years or less. Students pursuing a bachelor's degree at a for-profit college, however, have much lower graduation rates than those attending public 4-year universities.

Choosing a Major

Choosing a college major is an inexact science. There are various considerations, both personal and economic, that go into making the decision. A student's interests and passions are usually very important in his or her decision on which field to study. It is also important, however, to factor in potential earnings in a given field of study and the availability of jobs. This section will demonstrate how your choice of major will affect your future earning potential and your ability to repay your loans.

Some high school seniors are already certain what they will choose for a major in college. They get accepted into a degree program, receive a diploma, find a job in their field, work 30 or more years, and then retire. These graduates may continue to maintain gainful, steady employment in their chosen field for their entire adult lives. For many, however, the path is much more circuitous. A percentage of students begin college with an "undeclared major," taking general courses to assess where their interests and strengths lie. Others declare a major in the beginning of their college years, and switch once or more during the course of their undergraduate studies. While it is normal for young people to be unsure of their college major, and even to want to change it once or several times, be advised that changing majors throughout college may have the effect of adding years on to your undergraduate career, and by consequence, thousands of dollars on to your total bill. Those who are extremely unsure of their field of study may opt for a lower-cost institution for their first year, such as a local public university or a community college.

Just as your choice of school will have implications for the total amount of debt you graduate with, the college major you choose will have a great impact on the salary you earn and your ability to pay back these loans. Experts recommend that borrowers keep monthly student debt payments to approximately 8% of the future salary for their field of study in order to be able to afford monthly repayment, along with other living expenses. Mark Kantrowitz of FinAid.org, advises that a manageable debt load is about the same as a borrower's starting salary. In many cases, starting salaries may be significantly lower than the salary of someone who has been working in the field for years.

When choosing a major for your undergraduate degree, it is also important to consider whether this field of study will require you to obtain a Master's, Ph.D., or other

professional degree. If you plan on attending law school or medical school, for example, your four years of undergraduate study will represent only a small portion of your total student debt. It is not uncommon for a lawyer or doctor to graduate with $100,000 to $200,000 in student loans. This is an extremely high loan payment, even for someone who may one day be earning over $100,000 per year.

Another factor to consider before borrowing student loans is whether or not you will have a good chance of finding work in your field of study. The popularity of and demand for certain fields changes from year to year. Some fields are presently growing in demand, while others are declining. Some fields were recently growing and have now reached a saturation point for the job market because of an influx of college students who predicted demand years ago and decided to study in this field. In 2012, the fastest growing occupations are in healthcare, engineering sciences, and data managements and analysis[26]. These may be different one, two, or ten years from now.

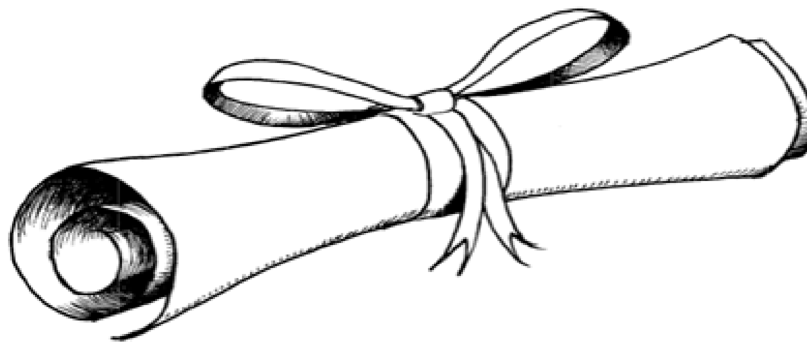


Figure 10 on pages 17-20 lists the employment rate, starting salary, earning potential for an experienced professional in the field, and maximum manageable debt load for various common college majors.

It is important to note that the following earning potential figures listed in the chart for individual majors are not starting salaries, but rather average salaries for people who have worked in this field for some time. Some of these figures may include earning potential for professionals who hold advanced degrees in their field. In this case, the maximum manageable debt load should represent the total amount owed on an education for all degrees obtained, not only for the undergraduate degree.

Starting salaries may be much lower than the figures listed, and therefore a lower maximum debt load may be needed if it will take you years to reach your highest earning potential in the field. It is always a good idea to research the college major you are planning to study, the types of jobs you will be able to do with the major, and trends in average earnings, before taking out student loans. The "starting salary" figure in the table is an estimate for the average of all college majors within a larger major group. For example, the starting salary listed for majors in the Social Sciences group is $37,000, but this may vary greatly depending on which social science you choose to study (i.e., an economics major may start off with a much higher salary than a sociology major).

Figure 10. College Majors, Earning Potential & Maximum Debt Load[27]

Major	Employment Rate	Earning Potential	Maximum Debt Load
Agriculture and Natural Resources			
Majors in This Group	**93%**	**Starting Salary: $32,000**	
Food Science		$65,000	$37,655
Forestry		$60,000	$34,758
Agricultural Economics		$60,000	$34,758
Agricultural Production and Management		$60,000	$37,655
Plant Science and Agronomy		$50,000	$31,861
Natural Resources Management		$50,000	$31,861
Miscellaneous Management		$47,000	$27,227
Animal Science		$44,000	$25,489
Arts			
Majors in This Group	**89%**	**Starting Salary: $30,000**	
Film, Video and Photographic Arts		$46,000	$26,648
Commercial Arts and Graphic Design		$45,000	$26,068
Fine Arts		$45,000	$26,068
Music		$42,000	$24,330
Drama and Theater Arts		$40,000	$23,172
Studio Arts		$40,000	$23,172
Visual and Performing Arts		$40,000	$23,172
Biology and Life Sciences			
Majors in This Group	**92%**	**Starting Salary: $32,000**	
Microbiology		$60,000	$34,758
Biochemical Sciences		$53,000	$30,703
Environmental Sciences		$51,000	$29,544
Biology		$50,000	$31,861
Zoology		$50,000	$31,861
Misc. Biology		$50,000	$31,861
Molecular Biology		$45,000	$26,068
Physiology		$45,000	$26,068
Ecology		$44,000	$25,489
Botany		$42,000	$24,330
Business			
Majors in This Group	**93%**	**Starting Salary: $39,000**	
Business Economics		$75,000	$43,447
Actuarial Science		$68,000	$39,392
Finance		$56,000	$32,441

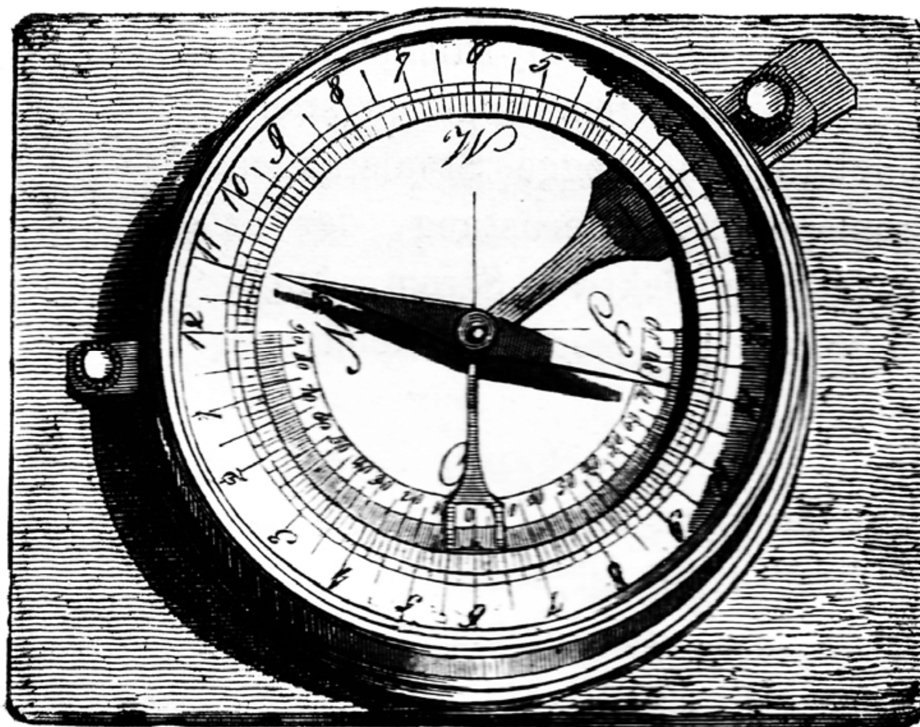
Accounting	$63,000	$36,496
General Business	$60,000	$34,758
Marketing	$58,000	$33,599
International Business	$55,000	$31,861
Hospitality Management	$50,000	$28,965
Communications and Journalism		
Majors in This Group **93%**	**Starting Salary: $33,000**	
Journalism	$51,000	$29,544
Advertising & Public Relations	$50,000	$28,965
Communications	$50,000	$28,965
Mass Media	$45,000	$26,068
Mathematics and Computer Sciences		
Majors in This Group **92%**	**Starting Salary: $46,000**	
Math and Computer Science	$98,000	$56,771
Applied Mathematics	$76,000	$44,027
Computer Science	$75,000	$43,447
Computer Engineering	$75,000	$43,447
Information Sciences	$66,000	$38,234
Education		
Majors in This Group **95%**	**Starting Salary: $33,000**	
Secondary Teacher	$46,000	$26,648
Physical Health and Education	$45,000	$26,068
Mathematics Education	$44,000	$25,489
Language Education	$42,000	$24,330
Elementary Education	$40,000	$23,172
Early Childhood Education	$36,000	$20,855
Engineering		
Majors in This Group **93%**	**Starting Salary: $55,000**	
Petroleum Engineering	$120,000	$69,516
Chemical Engineering	$86,000	$49,820
Electrical Engineering	$85,000	$49,240
Mechanical Engineering	$80,000	$46,344
Civil Engineering	$78,000	$45,185
Architecture	$63,000	$36,494
Health		
Majors in This Group **95%**	**Starting Salary: $43,000**	
Pharmacy/Pharmaceutical Science	$105,000	$69,516

Nursing		$60,000	$34,758
Health & Medical Administration		$55,000	$31,861
General Medical & Health Science		$45,000	$26,068
Humanities & Liberal Arts			
Majors in This Group	**90%**	**Starting Salary: $31,000**	
United States History		$57,000	$33,020
History		$50,000	$28,965
English Language & Literature		$48,000	$27,806
Liberal Arts		$48,000	$27,806
Humanities		$48,000	$27,806
Philosophy & Religious Studies		$48,000	$27,806
Area, Ethnic & Civilization Studies		$45,000	$26,068
French, German, Latin & Other Languages		$45,000	$26,068
Anthropology & Archaeology		$45,000	$26,068
Industrial Arts & Consumer Sciences			
Majors in This Group	**95%**	**Starting Salary: N/A**	
Construction Services		$70,000	$40,551
Cosmetology & Culinary Arts		$46,000	$26,648
Physical Fitness, Parks & Recreation		$43,000	$24,910
Law & Public Policy			
Majors in This Group	**92%**	**Starting Salary: $34,000**	
Public Administration		$59,000	$34,179
Criminal Justice & Fire Protection		$50,000	$28,965
Pre-Law & Legal Studies		$49,000	$28,385
Public Policy		$48,000	$27,806
Psychology & Social Work			
Majors in This Group	**93%**	**Starting Salary: $30,000**	
Psychology		$45,000	$26,068
Communication Disorders Science		$40,000	$23,172
Social Work		$39,000	$22,592
Physical Sciences			
Majors in This Group	**92%**	**Starting Salary: $32,000**	
Oceanography		$70,000	$40,551
Physics		$70,000	$40,551
Physical Sciences		$69,000	$39,972
Geology & Earth Science		$62,000	$35,916
Chemistry		$58,000	$33,599

Social Sciences			
Majors in This Group	**91%**	**Starting Salary: $37,000**	
Economics		$70,000	$40,551
Political Science & Government		$59,000	$37,075
Geography		$54,000	$31,282
International Relations		$50,000	$28,965
Sociology		$45,000	$26,068

A Word on Methodology

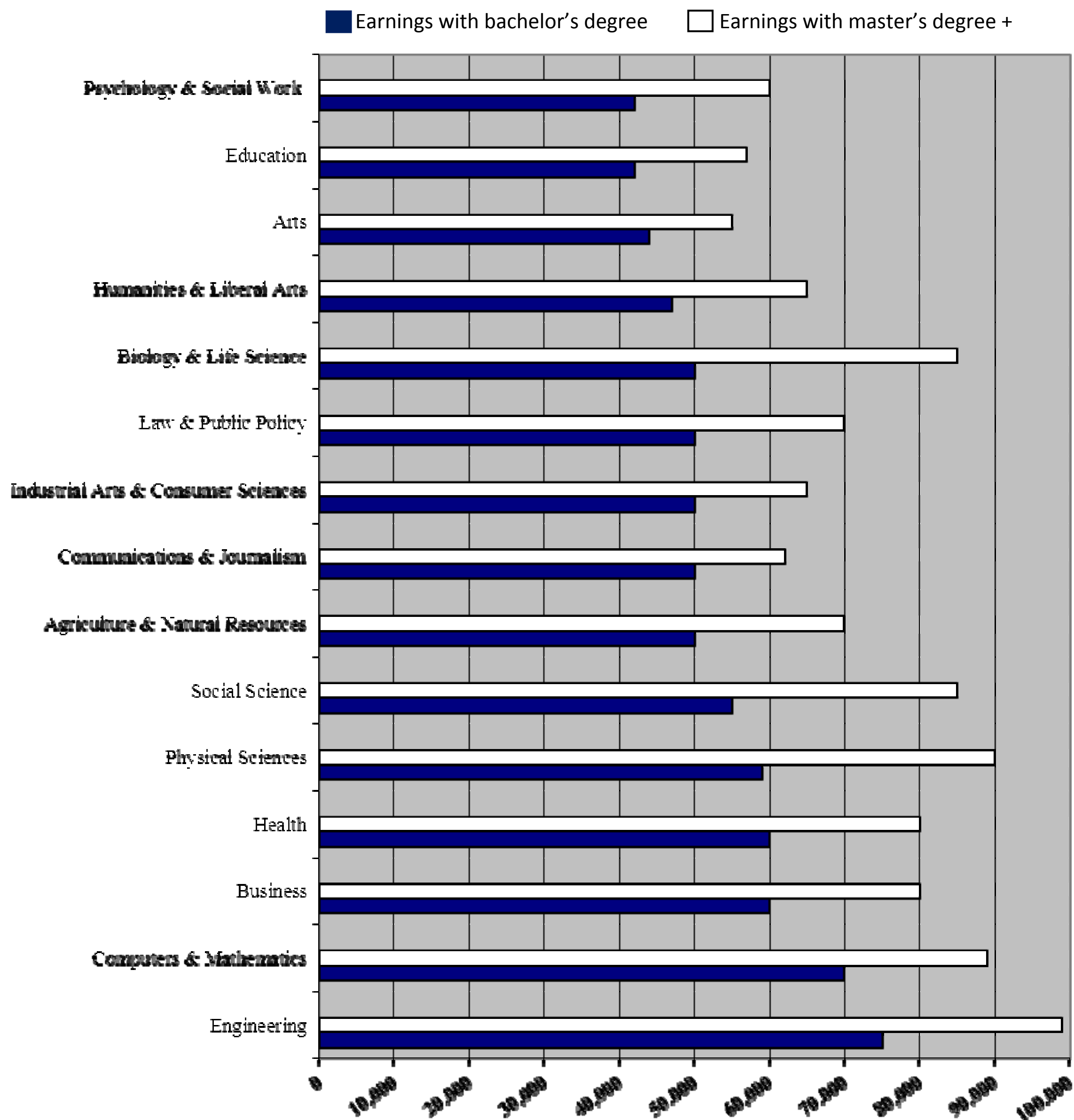
Figures found in the column Earning Potential, as well as the employment rates for various major groups were taken from a Georgetown University study entitles *What's It Worth: The Economic Value of College Majors*. These figures were then entered into the Financial Authority of Maine (FAME)'s student loan/salary calculator, which assumes that monthly student loan debt payments should not exceed 8% of a borrower's gross earnings. This calculator can be found at http://www.famemaine.con/Files/StaticPages/Education/DebtToSalaryWizard.aspx.



Should I Pay for a Master's or Professional Degree?

In some fields, such as the physical or social sciences, earning potential can greatly increase by seeking a Master's or professional degree. A $30,000 annual increase in pay is substantial, and may be well worth borrowing extra in student loans to achieve. In other field such as the arts, however, earning potential does not increase to the same extent for a worker holding an advanced degree. In this case, it may not be worth taking on an extra $30,000 of student debt in order to make on average only $11,000 more per year, as this would mean making an extra $4,000 per year in student loan payments.

Figure 11. Increased Earning potential with Master's or Professional Degree[28]



Chapter 2
Financial Aid 101

Federal Application for Student Aid (FAFSA)

The first step any college student or future college student must take to seek financial aid for school is to complete and submit the Free Application for Federal Student Aid or (FAFSA). This application requires no fee, and may be completed online or submitted in paper form.

The FAFSA application has three different deadlines for submission each year. The federal deadline is usually in late June, while the earlier Maine state deadline is set for the beginning of May. Individual colleges and universities, however, have even earlier submission deadlines, often in February or March. While you can usually submit a FAFSA after the deadline for your school (as long as it is not past the other deadlines), on-time submission is crucial to being considered for the maximum financial aid package for which you are eligible.

Many colleges will review your FAFSA and then require you to submit additional documentation, such as a parent's tax return, in order to be further considered for aid. It is equally important that these documents be submitted by the date set forth by the school. "Late submission status" can seriously compromise your financial aid package.

What You Need In Order to Submit the FAFSA:

- Social Security Number
- Driver's License
- W-2 forms from the previous year
- Federal income tax returns from the previous year
- Bank statements
- Alien registration number (for non-citizens)
- Federal student aid PIN (applied for online)

The FAFSA will relay information about yours and your parents' finances to the school in the form of a **Student Aid Report (SAR)**, so that the school can make a decision on how much

financial aid you will need for the academic year. Based on your **expected family contribution**, or **EFC**, you may be granted a wide range of financial aid, from grants and loans to work-study jobs. Once your school sends you your financial aid offer, you must choose which aid to accept or decline. Grants should always be accepted, as they do not have to be repaid, and Perkins and **subsidized** Stafford loans should be chosen over **unsubsidized** loans. It is important to maximize "free money" (See Chapter 6) and to only take out in loans what you will absolutely need for the year.

Should I File as an Independent Student?

Many students wonder whether they should file as an **independent student**, given that they are adults, and financially independent of their parents/guardians. Filing as an independent student often allows you to report a much lower annual income, thus increasing the amount of federal financial aid for which you are eligible. Unfortunately, this option is not a reality for many students, even if their parents/ guardians have no intention of helping the student pay for college. The federal government has a specific set of guidelines to determine whether the student will file their FAFSA as dependent or independent.

In order to be considered an independent student you must meet one of these criteria:

- You are 24 years of age or older by December 31st of the award year
- You are an orphan (both parents are deceased), ward of the court, or were a ward of the court before the age of 18
- You are a veteran of the United States Armed Forces
- You are a graduate or professional student
- You are married (or separated but not divorced)
- You have legal dependents other than a spouse
- Your financial aid administrator makes a documented determination of independence for unusual or extenuating circumstances

If none of the above applies to your situation, you are then considered a **dependent student** for federal aid purposes.

Income Reporting for Students with Divorced Parents

Students with divorced parents generally only provide the financial information of one parent. You should report the income and **assets** of the parent that:

- You lived with for the most amount of time during the 12 months preceding the application of the FAFSA, or
- Provided the greater amount of financial support during the 12 months preceding the application of the FAFSA if you lived

with neither parent, or both parents for equal amounts of time, or

- Most recently provided financial support to you, if you received no support from either parent during the preceding 12 months, or

- Your stepparent if you received financial support from a single parent who is now married, or if the parent you received financial support from was divorced or widowed but has remarried.

Appealing An Insufficient Aid Award

You can appeal your financial aid award if you believe the amount granted is insufficient or does not reflect your level of need. This can be done by explaining, in person or by letter, the specific circumstances of your financial need and why you believe your award is not sufficient. If your award is lower than it should be due to late submission of the FAFSA, you may also appeal your late filer status in order to get the amount of aid you would have received had you submitted on time. This can normally be done by filling out a form with the financial aid office or submitting a written explanation for why you were unable to submit your FAFSA or supporting documentation on time. Be an advocate for yourself at all times and do everything you can to get the best financial aid award. It could end up saving you thousands of dollars.

Professional Judgment

Ultimately, although they are restricted by federal income guidelines, the financial aid department of a university has a great deal of discretion over what you receive for aid. Because of the rigidity of the Federal Need Analysis Method that is used to determine aid eligibility, special circumstances that may alter a student's need are often not reflected in the aid package. Perhaps your family has experienced job loss, the death of a wage-earner, or an extremely high medical debt, none of which are factored into the federal formula for aid. In this case, the school's financial aid administrator (FAA) has the authority, granted from the federal government, to issue a professional judgment in order to make adjustments to the student's and parents' financial data. The financial aid administrator may also use a professional judgment to override a student's dependency status if documentation of rare circumstances can be provided. In order to initiate a professional judgment, the student must write a letter to the administrator clearly outlining the specific circumstances of their financial situation, along with any relevant documentation.

The decision to issue a professional judgment is entirely within the discretion of the financial aid administrator. This request can be denied for an objective reason such as the lack of documentation of the circumstances affecting the family's finances, or a subjective one, such as the parent or student being overly aggressive or impolite. The financial aid administrator is the final authority on professional judgment cases, and there is no appeal process available. It is wise, when working with an FAA on a professional judgment, to remain professional and polite, and to state your case with facts and documentation instead of emotion[29].

Analyzing a Sample Financial Aid Award Letter

(See Sample, Next Page)

The first thing to consider when receiving a financial aid package is that you are unlikely to receive the same amount and type of aid each year. Colleges often give better financial aid packages to first year students for two reasons: 1) better first-year financial aid packages help secure enrollment; and 2) Stafford loan limits increase annually, so first- year students are eligible for much less loan aid than they will be in their second, third, or fourth year.

1. **Divide the financial aid package into gift aid (grants and scholarships) and loans.** This financial aid package is fairly evenly split between loans and grants.

   Gift Aid: $10,000 Loans: $9,500

2. **Examine the types of grants and scholarships offered, and call the financial aid office to determine whether this same gift aid will be available in future years.**

   - **Federal Pell Grant**: This should stay about the same each year, as long as no major changes to your family's finances occur (e.g., new job, older sibling graduates from college).

   - **State of Maine Grant Program**: It would be wise to ask the financial aid office to describe the requirements for this grant, and the likelihood of the student receiving it all four years.

   - **Institutional Scholarship**: This type of aid, i.e. a scholarship originating from the college itself, is entirely at the discretion of the college and therefore there is likely no guarantee that this same scholarship will be offered after the first year.

3. **Examine the types of loans offered and watch out for non-need based aid.**

   This school offered the student the maximum amount of federal Perkins and Stafford loans. The $2,000 unsubsidized Stafford loan, however, is non-need based aid. It is common for schools with limited funding to package non-need based aid in the award to meet gaps in financial need and cost of attendance.

4. **Consider the Federal Work Study**

   While it certainly does not hurt to accept the work study, you must be aware that this is not a guaranteed job on campus. Instead, it is an offer of funding for a job should you be able to find an eligible work-study position. Make sure to ask your financial aid administrator how many hours you would have to work to make this amount of money during the school year, as well the availability of work study positions.

Notice of Financial Aid Award

March 6, 2015

Jane Smith
6 Moose Crossing Ln
Caratunk ME 04925

Dear Ms. Smith,

We are pleased to assist you in financing your college education. Should you have any questions regarding your financial aid package, please feel free to call the financial aid department.

Total Cost of Attendance	$23,000
Expected Family Contribution	$1,500
Financial Need	$21,500

Description	Award Type	Offered
Federal Pell Grant		$4,000
State of Maine Grant Program		$1,000
Federal Subsidized Stafford Loan		$3,500
Federal Unsubsidized Stafford Loan		$2,000
Federal Perkins Loan		$4,000
University Scholarship		$5,000
Federal Work Study		$2,300
		$19,500

This student was left with a great deal of **unmet need**. The total financial aid package was $2000 less than what the student demonstrated for financial need after her $1500 EFC was deducted. If your financial aid award leaves you with unmet need, be sure to make your financial aid office aware of this so that they may look into additional grants and loans for which you are eligible. This student was also given a lot of loans, many of which were unsubsidized and non-need based. Based on her first year financial aid award, (keeping in mind that she will likely receive more loans and less grants in future years), Jane can expect to graduate with between $40,000 and $50,000 in student loans after completing her four year degree.

Chapter 3

Types of Loans

It is crucial for students and parents to understand the primary differences among the types of student loans available. The type of loan chosen will have an enormous impact on the total amount of interest and finance charges paid over the life of the loan, as well as the range of consumer protections afforded to the borrower.

Federal Loans

The application for federal loans is simple: one must submit a yearly FAFSA application. Federal loans are the most affordable and least risky loans that can be used to pay for college expenses. These loans were designed to ensure broad access to financial aid for American citizens, regardless of a borrower's family annual income or credit rating. Federal loans come with relatively low, **fixed** interest rates and a variety of consumer protections (see Chapter 8). Additionally, repayment of federal student loans is usually deferred until after the student graduates or drops below part-time enrollment, as well as during a **grace period** of six to nine months after graduation. There are currently two major programs which administer federal student loans, the Federal Family Education Loan Program (FFELP) and the William D. Ford Federal Direct Loan Program.

Interest rates on federal loans are always fixed after disbursement, but are subject to change each year for newly originated loans.

Federal Family Education Loan Program (FFEL)

The Federal Family Education Loan Program is a federally-guaranteed student loan program under which private banks and other financial institutions provided the funds for student loans, and oversaw their repayment. Although many current students and student loan borrowers hold loans under the FFEL program, as of July 1, 2010 this loan program is no longer used to originate new federal student loans.

Federal Direct Loan Program (William D. Ford)

The William D. Ford Federal Direct Loan Program, or Federal Direct Student Loan Program (FDSLP), is currently the only federal student loan program utilized to originate new loans. Under this program the Department of Education, which receives funds from the US Treasury, provides the funding for direct federal student loans.

The two programs basically offer the same types of federal student loans, with a few

differences. Repayment plans offered under one program may not be available with the other. For instance, the Income Contingent Repayment Plan is available only through the Direct Loan program, whereas the Income Sensitive Repayment Plan is offered only by the FFELP. Other notable differences are that the Direct Loan program is the only program to offer the Public Service Loan Forgiveness. If FFEL borrowers wish to take advantage of this opportunity, they must consolidate their loans into the Direct Loan program. Additionally, the interest rate of a PLUS loan is 0.6% higher through the FFEL program.

Types of Federal Loans

Stafford loans are made available to undergraduate, graduate, and professional degree students. There is no separate application for a Stafford loan. The loan is offered by the Financial Aid department of your college or university if you meet the eligibility requirements. There are two types of Stafford loans, subsidized and unsubsidized. Subsidized Stafford loans are granted based on need, while unsubsidized Stafford loans are granted without consideration of need. Unsubsidized loan borrowers will be responsible for interest accumulated while the student is in school.

Perkins loans are also available to those seeking undergraduate, graduate, and professional degrees, and are granted based on demonstrated financial need. They carry a lower interest rate than Stafford loans and are repaid to the college or university that grants them. This is the least expensive type of federal loan that is offered. Perkins loans differ from Stafford loans in that they are administered by the university or college itself, and have a grace

Figure 13. Annual and Aggregate Loan Limits on Federal Loans[30]

Annual Limits for Dependent Students	
First Year	$5,500 ($3,500 subsidized/$2,000 unsubsidized)
Second Year	$6,500 ($4,500 subsidized/$2,000 unsubsidized)
Third Year & Beyond	$7,500 ($5,500 subsidized/$2,000 unsubsidized)
Annual Limits for Independent Students	
First Year	$9,500 ($3,500 subsidized/$6,000 unsubsidized)
Second Year	$10,500 ($4,500 subsidized/$6,000 unsubsidized)
Third Year & Beyond	$12,500 ($5,500 subsidized/$6,600 unsubsidized)
Graduate or Professional	$20,500 ($8,500 subsidized/$7,000 unsubsidized)
Aggregate (Lifetime) Limit	
Undergraduate Dependent	$31,000 (up to $23,000 may be subsidized)
Undergraduate Independent	$57,500
Graduate or Professional	$138,500 (up to $65,000 may be subsidized) or $224,000 for health professionals

Figure 14. Federal Loan Interest Rates

Federal Loan Type	2012 Interest Rate	Historical Interest Rates (2006-2012)	
Subsidized Stafford		7/1/06 - 6/30/08	6.8%
Unsub. Stafford		7/1/08 - 6/30/09	6.0%
Perkins Loan		7/1/09 - 6/30/10	5.6%
PLUS Loan		7/1/10 - 6/30/11	4.5%
Consolidation Loan		7/1/11 - 6/30/12	3.4%

period of nine months instead of six months after graduation before repayment must begin.

Perkins loans are also available to those seeking undergraduate, graduate, and professional degrees, and are granted based on demonstrated financial need. They carry a lower interest rate than Stafford loans and are repaid to the college or university that grants them. This is the least expensive type of federal loan that is offered. Perkins loans differ from Stafford loans in that they are administered by the university or college itself, and have a grace period of nine months instead of six months after graduation before repayment must begin.

Parent PLUS loans are lent to parents of dependent undergraduate students in order to assist them in financing their child's education. Graduate and professional students are also permitted to apply for PLUS loans in their own name without a parent's signature. PLUS loans are the only type of federal loans that are subject to credit check, although this credit check is generally less rigorous than that used for a private student loan. Adverse credit history, such as a recent bankruptcy, could be cause for denial of the PLUS loan.

Graduate and professional students wishing to apply for a PLUS loan must fill out the FAFSA in order to be considered for one. The interest rate on a PLUS loan is higher than that of a Perkins or Stafford loan. In the case of a Parent PLUS loan, the parent is solely responsible for repayment, and the balance can never be transferred to the student. PLUS loans do not have a **deferment** until after graduation option. Repayment begins 60 days after the **disbursement** of the final payment to the borrower.

Caution: Although the PLUS loan originates from the federal government, it is considered an **alternative loan** that is not part of a student's financial aid package. In some cases, depending on the credit history of the borrower and other factors, a private loan may be a better option than the PLUS loan. See PLUS Loan vs. Private Loan on page 18 for more information.

Consolidation loans allow the borrower to consolidate multiple types of federal student loans into one loan with one monthly payment. The APR on consolidation loans is a weighted average of the interest rates on all of the federal loans being consolidated. This option is not offered under the FFEL program.

Fees on Federal Loans

All federal loans are subject to an **origination fee**, which is assessed at the time of disbursement. For loans first disbursed on or after July 1, 2010 the origination fee is 1%, with the exception of Direct PLUS loans which carry an origination fee of 4%. Once repayment begins, your student loan servicer may also assess late fees on monthly balances paid after the deadline. If your loan goes into default you may also have to pay a collection fee equal to 25% of your balance.

Interest on Federal Loans

Interest, the fee charged by the lender for the use of the borrowed money, is a huge factor in the overall cost of a loan. For subsidized federal loans, interest is paid by the federal government while the student is enrolled in school. As of July 1, 2012, interest begins to **accrue** on subsidized loans as soon as the student graduates, instead of after a six month grace period. Unsubsidized federal loans begin to accrue interest as soon as they are disbursed.

Private Loans

Private loans, sometimes referred to as alternative loans, should be used only as a last resort when eligibility for all other types of federal aid has been exhausted. Unfortunately, many student borrowers are unaware of the differences between these two types of student loans, and take out private loans when they are eligible for lower-cost federal loans[33]. "Private student loans are one of the riskiest ways to pay for college, and they are not financial aid any more than a credit card is when used to pay for textbooks or tuition[31]." This type of loan is not part of a student's financial aid package from the school. Instead, borrowers apply for private student loans through private financial institutions such as Sallie Mae, Wells Fargo, Chase and Citibank.

Private loans generally have higher interest rates than federal loans. While interest rates on federal student loans have historically ranged from 3-7%, private loans may have interest rates between 9% and 15%. The most competitive private student loans, those that are comparable to the federal PLUS loan, will

Calculating Simple Daily Interest

Number of Days Since Last Payment

X Outstanding Principal Balance

X Interest Rate Factor

= Interest Rate

To get the interest rate factor, divide the loan's interest rate by the number of days in the year (365.25)

"May your college memories last as long as your student loan payments."

-Unknown

carry interest rates of LIBOR + 2.0% or PRIME – 0.50%[32]. Although more private student loan companies are beginning to offer fixed rate loans, many private loans have variable interest rates, making it hard for borrowers to predict their monthly loan payments.

Private loans are available to undergraduate, graduate and professional degree students. Unlike federal loans, they are not granted based on need, but rather on the creditworthiness and income of the student or parent. A co-signer is usually required before a student is approved for a private loan. The greatest disadvantage of a private student loan compared to a federal student loan is that private student loans do not offer the same borrower protections and repayment terms. Forbearance and deferment are sometimes possible with private loans; however, income-based repayment and extended payment are not.

Comparing Private Lenders

While interest rates and fees on federal student loans are known, published rates that are consistent for every borrower, the interest rate that will be charged on a private loan is virtually impossible to know without first submitting an application. Because private lenders use an index-plus-margin equation to determine interest rates, and one of these variables is the applicant's creditworthiness, it is nearly impossible to compare private education loans by looking solely at the interest rate.

Index + Margin Percentage Example

Prime rate 3.25% +

Margin of 7

= Interest rate of 10.25%

Interest rates on private loans are calculated with the following formula: Index + Margin = Interest Rate.

Index: Interest rates on private education loans fluctuate with the rise or fall of the index used (either the LIBOR or Prime rate). These indices are published daily and can be used to determine how the monthly interest rate on your student loan was derived. You can find

TIP: Federal Plus Loan vs. Private Loan

While generally federal loans are much less expensive than private loans, the PLUS loan may be an exception. The federal PLUS loan is considered to be an alternative loan because it carries a higher interest rate than other federal loans and has different repayment terms. For most borrowers, the PLUS loan will still be a better choice than a private loan. However, for some borrowers with excellent credit, a private loan could be less expensive under certain conditions; *e.g.*, the borrower will pay less interest if he or she plans to borrow the loan for a short period of time and repay the loan quickly. The PLUS loan still offers repayment terms and protections that private loans do not.

Figure 15. Federal Truth-in-Lending Disclosure Box

ANNUAL PERCENTAGE RATE	FINANCE CHARGE	AMOUNT FINANCED	TOTAL OF PAYMENTS
The cost of your credit as a yearly rate.	The dollar amount the credit will cost you. $	The amount of credit provided to you or on your behalf. $	The amount you will have paid when you will have made all scheduled payments $
Late Charge: If any part of a payment is more than ______ days late, you will have to pay a late charge of ______% of the monthly payment of $______, whichever is greater.			

the Prime rate in the Wall Street Journal (in print or online), and the LIBOR rate online at the British Bankers' Association website.

Margin: The margin percentage is a fixed figure that is determined by the creditworthiness of the borrower. Margins typically range from 2 to 15.

Since it is too difficult to compare two private student loans based on interest rate, the Truth-in-Lending Act requires that all lending institutions publish the **Annual Percentage Rate (APR)** of a loan so borrowers are provided with an accurate standard for comparison. It is therefore the APR that is the best indicator of the total cost associated with the loan, as this figure takes into account both interest and finance charges.

Federal Truth-in-Lending Disclosure Box

Because the terms and conditions of a private student loan may be confusing, the Truth-in-Lending Act requires that a federal box be provided by all lenders at the top of the Truth-in-Lending Disclosure in a uniform format. This box allows the consumer to understand the true cost of the loan, by highlighting key terms of the agreement and prominently displaying the APR and finance charges. Look for the federal box in the loan documentation before signing on the dotted line.

Private Loans and Financial Aid

The Bureau of Consumer Credit Protection reminds you how important it is for students to maximize federal student aid before applying for private loans. Not only are private loans costlier and more difficult to repay, but they may also have a negative impact on the student's financial aid award. A private education loan may reduce eligibility for free or lower-cost federal, state or school financial aid, particularly if the amount borrowed exceeds the cost of attendance less the financial aid granted.

A private education loan may reduce eligibility for free or lower-cost federal, state or school financial aid, particularly if the amount borrowed exceeds the cost of

attendance less the financial aid granted.

In sum, if the cost of attendance at your school is $20,000 per year, and your financial aid award totals $15,000, taking out a $10,000 private loan may cause the financial aid office to alter your award package.

Other Factors to Consider

By law, students who have illegal drug convictions under federal or state law may be ineligible for all student aid applied to through the FAFSA, including federal loans. If you are deemed ineligible for federal loans due to a drug-related conviction (such as sale or possession), you may need to consider private student loans.

In order to remain eligible for federal student loans, you must demonstrate "Satisfactory Academic Progress." Therefore, if you fail to maintain a certain GPA, you may lose your financial aid eligibility for the following semester or academic year.

Figure 16. Comparison of Federal and Private Loans

	Federal Loans	Private Loans
Lender	U.S. Department of Education	Private Lenders
Eligibility	• Any U.S. citizen or permanent national with a social security number • Submit a FAFSA • Enrolled at last half time in an eligible college or university • Maintain good grades	• Based on income, credit worthiness • Must by at least 18 years old • Cosigner usually required
Interest While Enrolled	Subsidized loans are available to those who demonstrate need	Unsubsidized
Repayment Options	Federal loans can be repaid multiple ways (e.g., standard, graduated or income-based)	More restrictive payment terms than federal loans. Income-based repayment generally unavailable
Consumer Protection	Deferment, forbearance, forgiveness (or partial forgiveness) in case of death or serious injury	Usually ineligible for deferment, forbearance and forgiveness options
Interest Rate / APR	• 3.4 to 7.9% (see pg. 34) • Fixed rates	• Rates higher than federal loans • Variable rates
Fees	1% origination fee at disbursement	Some services charge fees in addition to interest
Repayment Term	10 years	15 years

Chapter 4

Terms and Repayment Options

The key to repaying your student loans is to select an appropriate repayment plan that suits your financial needs. It is important to be realistic when determining your payment plan. Ideally, you want to pay as much as you can comfortably afford each month in order to pay off the balance and minimize interest costs. Extended repayment plans bring short-term benefits to students struggling financially immediately after college, since the monthly payments will be much lower than under the standard plan, however, due to the longer repayment term, a student could end up paying tens of thousands of dollars more in the long run. As shown in Figure 15, by borrowing $35,000, under the extended repayment plan

Figure 17. Types of Repayment Plans (Independent of Income)[34]

	Standard	Extended	Graduated
Description	Pay a fixed amount each month until loan is paid in full	Pay a fixed annual or graduated amount To be eligible, you must have over $30,000 in debt	Payments start low and increase every two years. No payment will me more than 3 times the amount of the lowest payment
Repayment Period	Up to 10 years	Up to 25 years	Up to 10 years
Advantage	Pay the least total interest over the lifetime of the loan	Lower monthly payments	Good for those who expect their income to increase gradually over time
Disadvantage	Highest monthly payments	Highest total interest	Higher total interest than the standard plan
Minimum Payment	$50.00	Variable	No less than the amount of interest that accrues between payments
With a debt load of $35,000...	Pay monthly: $402.78 Total interest: $13,333 **Total paid: $48,333.60**	Pay monthly: $198.33 Total interest: $43,939 **Total paid: $78,939.16**	Pay monthly: Variable Total interest: $15,944 **Total paid: $50,944.45**

the amount of interest paid over time will actually *exceed the amount originally borrowed.* You do not want to select a repayment plan that is unsustainable, considering your monthly income and living expenses after school.

Pay As You Earn

In our current job market, where it has become increasingly difficult for recent college graduates to gain steady full-time employment within the grace period before they have to begin repaying their loans, *any* of these three payment plans (standard, extended, or graduated) may seem daunting. In reality, many graduates will not be able to afford hundreds of dollars in student loan payments each month that soon after graduation. Fortunately, recent policy initiatives aimed at addressing this problem have created new repayment plans that establish a borrower's monthly loan payment based on how much they earn, rather than how much they owe.

The Income Based Repayment Plan (IBR) was enacted in July 2009 as a component of the federal College Costs Reduction and Access Act of 2007. This new repayment plan is designed to provide relief to graduates who are struggling with low incomes and high debt burdens. Under the IBR plan, the required monthly payment is capped at an amount designed to be affordable for the borrower based on income and family size. Currently, the cap is set at 15% of the borrower's monthly discretionary income. Borrowers who pay under this plan for 25 years and meet other requirements may be eligible to have any remaining balance on their loan cancelled. The monthly payment amount is reviewed and

Figure 18. Estimated Monthly Payments Under Income-Based Repayment Plan

Annual Gross Income	Family Size						
	1	2	3	4	5	6	7
$10,000	$0	$0	$0	$0	$0	$0	$0
$15,000	$0	$0	$0	$0	$0	$0	$0
$20,000	$41	$0	$0	$0	$0	$0	$0
$25,000	$103	$29	$0	$0	$0	$0	$0
$30,000	$166	$91	$17	$0	$0	$0	$0
$35,000	$228	$154	$80	$5	$0	$0	$0
$40,000	$291	$216	$142	$68	$0	$0	$0
$45,000	$353	$279	$205	$130	$56	$0	$0
$50,000	$416	$341	$267	$193	$119	$44	$0
$55,000	$478	$404	$330	$255	$181	$107	$33
$60,000	$541	$466	$392	$318	$244	$169	$95
$65,000	$603	$529	$455	$380	$306	$232	$158

adjusted annually to reflect changes in income and family size. The IBR repayment plan is available for both FFEL and Direct loans.

A particularly noteworthy aspect of the IBR plan is the interest payment benefit. Under the IBR plan, if your monthly payment does not cover the full amount of interest that accrues, the government will pay interest accrued monthly on subsidized loans. This interest payment benefit will continue for up to three consecutive years. Thus, the IBR plan will act as a financial hardship deferment for those who are deemed to be able to afford $0 per month..

Under the Income-Based Repayment Plan, any single adult making under $15,000 annually will generally qualify for a monthly payment of $0.

Apply to your lender for the IBR repayment plan at least two months before the end of your grace period to allow time for processing.

In addition to the Income Based Repayment plan, borrowers with Direct Loans can benefit from an Income Contingent Repayment plan (ICR). Similar to IBR, ICR allows borrowers to repay their loans based on their income, and debts remaining after 25 years may be forgiven. The borrower, however, is responsible for all accrued interest on the loan, and unpaid interest is capitalized annually. Under the Income Contingent Repayment plan, monthly payments are the lesser of:

1. The amount you would pay if you repaid your loans in 12 years multiplied by an income percentage factor that varies with annual income; or

2. 20% of your monthly discretionary income (federal Adjusted Gross Income minus the poverty level for your family size).

While there are many similarities between the Income Based Repayment plan and the Income Contingent Repayment plan, the two have some key differences:

- The Income Based Repayment plan is available for both FFEL and Direct Loans, while the Income Contingent Repayment plan can be used for Direct Loans only.

- The ICR plan takes into account the total amount of debt in addition to income and family size when calculating a monthly payment. The IBR plan does not.

- Under the ICR plan there is no interest payment benefit as under the IBR plan.

- Under the IBR plan there is generally no interest **capitalization**, unless you are determined to no longer have a "partial financial hardship." By contrast, under the ICR plan the unpaid interest that accrues on your loans is capitalized at the end of each year.

Postponing Student Loan Payments: Deferment & Forbearance

There are two common ways that borrowers

can delay payments on student loans: deferment and forbearance.

Deferment is a temporary postponement of payment on student loans for a specified time period. During deferment, interest accrued on subsidized loans is paid by the federal government. Interest accrued on unsubsidized loans, however, must be paid or it will be capitalized at the end of each year of deferment. There are various types of deferments:

- **In-School Deferment**: The borrower is attending graduate or professional school and wishes to postpone payments until after completion of studies.

- **Education Related Deferment**: The borrower is participating in an internship or residency program. This carries a maximum deferment period of 2 years.

- **Economic Hardship Deferment**: The borrower is experiencing economic hardship and is unable to afford student loan payments. The maximum deferment period is 3 years, and the borrower must reapply each year.

- **Military Deferment**: The borrower requests postponement of payments while performing active duty in the military, or for a period of time afterwards (post-active duty).

- **Unemployment Deferment**: The borrower is unemployed or working less than full time.

- **Parental Leave/Working Mother Deferment**

- **Public Service Deferment**: The borrower is participating in a public service program, such as through the Armed Forces or the Peace Corps.

- **Temporary Total Disability Deferment**: The borrower or the borrower's spouse is disabled.

Forbearance is also a temporary postponement of payments, or a reduction in payments, due to economic hardship. Forbearance is typically granted when the borrower is ineligible for deferment. Forbearance differs from deferment in that interest accrues on both subsidized and unsubsidized loans, and the borrower must repay this interest or have it capitalized. Forbearance can be granted in intervals of up to 12 months, for a maximum of three years.

Applications for both deferment and forbearance are done through the lender. It is important to note that processing applications for deferment and forbearance can take some time, and to avoid going into default you must continue making payments until your application is granted.

Penalty-Free Prepayment

One great aspect of student loans, federal and private, is that you can make a prepayment, or pay extra monthly, any time you wish in order to more rapidly reduce the **principal balance** on the loan. Payments in excess of the monthly

payment are first applied to fees and interest and then to the principal balance. If the prepayment is an amount greater than that of one monthly payment, you must include a note requesting that the payment be applied to the principal balance, and not to a future payment.

The benefits of prepayment are numerous. Prepayment can save you a significant amount of money by allowing you to pay off the loan more quickly and to pay less interest over the life of the loan. As the outstanding loan principal gets smaller, more of each monthly payment is applied to the principal balance and less to fees and interest.

Additionally, prepayment can help you pay your loans more strategically. If you have multiple types of loans with different interest rates, subsidized and unsubsidized, prepayment will allow you to pay down the most expensive loans first. If you have a PLUS loan and 3 Stafford loans with the same lender, you should opt to have a prepayment applied to the PLUS loan, given that it carries a higher interest rate. It is smart to specify to your lender that you want this prepayment to be applied to a particular loan, because if not the lender may either apply it to all of the loans or to the least expensive loan. Make sure you get the most out of your additional payments so that you maximize interest savings.

Interest Capitalization

A little known factor of student loan repayment is that of interest capitalization. Most students *are* aware of the fact that when they take out federal unsubsidized loans, or any private student loan, these loans will accrue interest from the date they are disbursed by the school or lender. What many do not know, however, is that this interest may be capitalized after the grace period (the six month time period after graduation before the first loan payment is due). This means that the interest accrued will be added to the principal balance when payment becomes due, and that when

Tip: IBR + Prepayments = Pay How Much You Want, When You Want

If you have recently graduated from college and are making less than $10,000 a year, you may choose a strategic repayment method that combines the IBR plan with optional prepayments. By choosing this plan, your monthly required payment will be $0, so you will never have to worry about missing payments or going into default. If your loans are subsidized then this will act like an economic hardship deferment (the government will pay the interest that accrues each month). If the loans are not subsidized, you may opt to make at least the monthly interest payments so that you do not accrue interest during this time period (similar to forbearance).

The IBR plan puts you in a great position to make prepayments when you have extra cash at the end of the month to do so. While you are required to pay nothing, you can pay any amount, any time you want to, in order to reduce your principal balance. You can even apply prepayments only to certain loans (starting with those with the highest interest rates). This method allows you to customize your repayment, and to only pay what you can afford.

repayment begins on these loans the principal could be much higher than originally anticipated. What is worse is that from then on, interest will be charged on both the principal and the capitalized interest. This interest capitalization also may occur after periods of deferment or forbearance.

Additionally, this capitalized interest leads to what is called **negative amortization** of the loan. This means that the outstanding balance of the loan actually increases because the loan is accruing interest that is capitalized (added) to the principal balance. Our agency often receives calls from student loan borrowers who are confused as to why, after months of faithfully making student loan payments, their principal balance is still greater than the amount they originally borrowed. This is unfortunate, but stated in the terms and conditions of the loan.

To understand how much extra cost is associated with capitalization, consider the following example[35]:

Andrea takes out a $5,000 unsubsidized Stafford loan at the beginning of her freshman year. The loan is disbursed in September and the interest begins to accrue at this time. She graduates the next year, and begins making her student loan payments four years later. At the date of her first student loan payment she has already accrued $1,621.95 in interest, which puts her new principal balance on the loan at $6,621.95.

After 10 years of making payments of $76.21 per month, the total amount she pays for the loan is $9,145.20, of which $2,523.25 is interest accumulated during repayment, not including the $1,621.95 accrued during the time she was in school and the grace period.

In total, she ends up paying $825.73 more over the term of her loan than she would have without interest capitalization. This is an extra $0.16 for every dollar.

Loan Forgiveness

Full or partial loan **forgiveness** is often granted by the federal government to individuals who perform volunteer service through AmeriCorps and VISTA programs, the Peace Corps, or the military. Special programs also allow certain borrowers who pursue a career in teaching, public service, law, medicine and other professions to have their loans forgiven after a certain period of time.

It is important to keep in mind that the amount of a forgiven loan may be considered taxable income, as gross income includes income from the discharge of indebtedness of $600 or more in any calendar year, according to current tax guidelines.

Tip: Keep Interest Out of Your Principal Balance

Your principal balance is high enough, so why let it grow while you are in school? One way to avoid having a higher principal balance when you graduate than you originally borrowed is to make monthly interest payments while you are in school. Generally, these interest payments are relatively low and you may find it will be well worth it. If you do not pay this interest as you go, you will end up paying interest on the interest accrued once payment begins.

Chapter 5
Default and Collections

Student loan debtors face challenges different from consumers who owe other forms of debt, such as homeowner's mortgages, credit cards, or auto loans. This section will explain some of the ways that student loans differ with respect to repayment, collections and default.

Bankruptcy

Student loans are extremely difficult to get rid of. Specifically, it is one of a few types of debt that is nearly impossible to discharge by filing Chapter 7 or Chapter 13 bankruptcy. Federal loans may not be discharged unless the borrower can prove that the repayment of the loans will result in "undue hardship" to the borrower or dependents. Proving "undue hardship" is extremely difficult. While courts use different tests to determine undue hardship, three common criteria, as determined by the Brunner test[36], are:

1. That the debtor cannot maintain, based on current income and expenses, a minimal standard of living for the debtor and dependents if forced to pay off student loans;

2. That additional circumstances exist indicating that this state of affairs is likely to persist for a significant portion of the repayment period of the student loans; and

3. That the debtor has made good faith efforts to repay the loans.

Adding to the difficulty of discharging student loans is the cost of litigation in bankruptcy court needed to prove undue hardship and the fact that most student loan lenders will aggressively pursue their own legal argument that the debt should not be discharged.

Since 2005, amendments have been made to the Bankruptcy Code that expand the powers of student loan lenders to include private lenders. Therefore, private student loans are also now as difficult to discharge in bankruptcy as federal loans. Under most circumstances it is nearly impossible to discharge federal or private student loans through bankruptcy.

Statute of Limitations

Most forms of debt are subject to a statute of limitations, in which after a certain period of time has passed, neither creditors nor debt collectors may no longer use the court system to force a borrower to repay a debt. Student loans are exempt from statutes of limitation. This can have serious implications for older borrowers who are on a fixed income and are unable to repay loans they took out 40 years ago. In this case, if they have no other assets or property, the government may withhold a portion of their Social Security benefits[37].

Default

"Default" has a specific meaning in the context of student loans. In the terms of a mortgage or car payment contract, default can be synonymous with **delinquency**. When talking about student loans, default occurs when a borrower has failed to make a payment for 270 days (or 330 days for someone who pays less frequently than monthly).

Avoiding Default

Despite their best intentions, many recent college grads find that for a number of reasons, such as unemployment, underemployment, or simply an exorbitant amount of accumulated student debt, they are unable to make the scheduled payments on their student loans. In fact, 8.8% of students who began repayment of their loans in 2009 defaulted within the first two years[38]. What most do not realize is that defaulting on student loans has much more serious consequences than missing an auto loan or credit card payment. It is of utmost importance that every effort be made to continue making payments on these loans, or in the very least to stay in constant communication with loan servicers. It is critical to avoid going into default on your student loans. If you are struggling to pay back your loans and feel that you are in danger of default, there a few things you can do to avoid being delinquent on your payments:

- **Change your repayment plan:** Under the Federal Family Education Loan Program you can change your repayment plan once a year. Under the Direct Loan Program you may change your repayment plan as often as you'd like as long as the new plan has a repayment term longer than the amount of time you have already been in repayment.

- **Request a deferment**: A deferment is a suspension of loan payments for a defined period of time for specific situations such as reenrollment in school, unemployment, or financial hardship. Interest accrued on unsubsidized loans will be capitalized at the end of the deferment period. You may apply for a deferment through your student loan servicer.

- **Request forbearance:** Forbearance is a temporary postponement or reduction of payments for a period of time because of financial hardship.

Be Proactive!

Never ignore a notice of default from your loan servicer. You'll have more options available if you work with your loan servicer *before* your loan goes into default.

Consequences of Default

- Once your loan is in default you are no longer eligible for payment relief options such as deferment or forbearance or forgiveness. These options must be sought before it is too late!

- If you are in default on a student loan you are no longer eligible to receive federal financial aid. Forget that Master's degree!

- Your wages may be garnished at a maximum rate of 15% of your take-home or disposable pay, even without the servicer obtaining a court order.

- Your federal and state income tax refunds may be intercepted and applied toward your debt.

- The federal government may withhold a portion of your Social Security benefit payments.

- Reports of default are sent to all credit agencies, which can affect your future ability to buy a car or a home. Defaulted loans can remain on your credit history for up to 7 years after the default claim is paid.

- You may be prohibited from renewing a professional license that you hold, or from enlisting in the Armed Forces.

- More serious collection activities may ensue. These include:

  - A demand for immediate payment in full on the balance of your loan.

  - Your loan servicer may assign your account to a collection agency, which may add a 25% fee to your balance for collection costs. You may also be responsible for court and attorney fees.

  - You can be sued, and prohibited from purchasing or selling assets.

Getting Out of Default

The consequences of student loan default are dire and require immediate and proactive response. There are a few ways to get out of default:

- **Pay the loan in full**. While this is clearly not a financially feasible option for many people, the Federal Student Aid website indicates that paying the loan in full is the easiest way to get out of default.

- **Discuss changing your repayment plan with your lender.**

- **Rehabilitate your loan**. To rehabilitate a loan, you and the loan holder must agree on a reasonable and affordable payment plan for the next 9 month over a ten month period. Usually the rehabilitation agreement specifies the payments and responsibilities. The loan is considered "rehabilitated" once you have voluntarily made the payments set forth in the rehabilitation agreement. The default status of the loan is removed at the end of the process, and you will regain eligibility for further Title IV loans, as well as forbearance and deferment, and the option to switch repayment plans. Successful rehabilitation removes the earlier default from your credit report.

- **Consolidate your loans**. Similar to refinancing a mortgage, student loan consolidation involves combining several student or parent loans into one bigger loan from a single lender.

Remember, the consequences of student loan default are numerous, as are the ways to avoid going into default in the first place. It is wise to exhaust all payment reduction (extended, graduated, or income-based repayment) and payment postponement (deferment and forbearance) options before it is too late.

Borrowers who default on their federal loans may have up to 15% of their disposable income garnished from their paycheck.

Administrative Wage Garnishment

Wage garnishment is initiated when a borrower refuses to voluntarily repay their defaulted loan. Upon receipt of a Notice Prior to Wage Withholding, you may request for a payment plan to be arranged to begin voluntary repayment of the loan. If you fail to make arrangements to pay within the time period allotted, you will be issued an Order of Withholding thirty days prior to the beginning of wage garnishment. This letter will also detail your rights and appeal procedures. At this point you may inspect and copy records relating to your debt, and you can request a hearing. Requesting a hearing may delay the process of wage garnishment and give you the opportunity to challenge the Order of Withholding. Commonly, borrowers try to make the case that wage garnishment will result in financial hardship for them or their dependents. It is important to do everything possible to prevent wage garnishment because once it begins, generally the withholding will occur until employment is terminated or the loan is paid off[39].

The amount of withholding is limited to 15% of the borrower's disposable income, or for those holding multiple loans with multiple lenders, 25% of the disposable income. You have the legal right to not be fired or punished by your employer because of your wage garnishment.

Collection Fees and Penalties

A loan held by the Department of Education that has been in default for a period of time will often be turned over to a major collection agency with which the government has contracted. Borrowers often have difficulty figuring out which agency is collecting their loans. Defaulted loans may be held by the Department of Education, state guaranty agencies, the school, or contracted private collection agencies. In order to find out which agency is collecting your loans, you can call the federal student aid information center at 1-800-4-FED-AID, where the staff should be able to give you the address and phone number of the agency holding the loan. Those with Direct Loans may contact the Direct Loan Servicing Center at (800) 848-0979[40]. Throughout the remainder of the collection process, the collection agency is in charge of your loan.

Collection agencies may assess a collection fee equal to 25% of the balance of your student debt.

All payments from this point on will be processed at the Education Department's National Payment Center, where the department will calculate a commission owed to the collection agency. The maximum

amount that can be charged for collection fee is currently 25%. The commission the department has paid its collector is then deducted from the borrower's payment, and only the balance remaining after the commission fee is applied to the principal and interest balance on the loan[41]. Many borrowers in default are unaware that they are being charged such a fee, and are confused why their payments are not being applied in full.

It is very difficult to take an account away from a collection agency to avoid the collection fees. However, no collection fees can be assessed on amounts taken from tax refunds; therefore, the borrower may opt to have a large tax refund due that can be intercepted and applied to the student loan payment without additional fees. The borrower may also consolidate the defaulted loan into a new direct loan. Again, a one-time collection fee will be assessed from the old loan, but no subsequent payments will go to collection fees unless the new loan goes into default. The borrower's last option is to report illegal or improper collection practices to the Department, which may have the loan taken away from the collector[42]. The Maine Bureau of Consumer Credit Protection will also assist you if you are subject to illegal collection tactics.

Chapter 6

Grants, Scholarships and Credits

Federal Grants

Completing the FAFSA will automatically qualify you for any grants for which you may be eligible, based on your Expected Family Contribution (EFC). A grant is a form of financial aid, based on need, that does not need to be repaid. Many grants, however, require that you meet certain conditions, or else they will have to be repaid. For instance, federal Pell Grants must be paid back if you withdraw from school. Generally, if you attend 60% of the classes in a semester, you will remain eligible for 100% of your Pell Grant. If you complete 25% of the semester, you remain eligible for 25% of the assistance you were originally granted, and the remaining 75% is returned to the Department of Education. For grants with specific Agreements to Serve, such as the TEACH Grant, the assistance must be repaid to the Department of Education if the service is not completed.

State of Maine Grant

Maine residents who file a FAFSA by May 1st are automatically considered for the State of Maine Grant. In order to be eligible, the student must have an EFC that is lower than $5,000. The award amounts for different types of schools and enrollment status are listed below. Out-of-State institutions include those located in Connecticut, Massachusetts, Pennsylvania, Rhode Island, Vermont or the District of Columbia.

State of Maine Tuition Waiver Program

The State of Maine offers two types of tuition waivers: Tuition Waiver (Foster Care) and Tuition Waiver (Public Servant). Certain foster children, adopted children/wards under subsidy from the Maine Department of Health and Human Services, and children of firefighters, law enforcement officers or emergency medical services persons killed in the line of duty qualify for free tuition at Maine public schools.

Private Outside Scholarships

While need-based grants will be a huge resource for families of low to moderate income, those coming from a higher economic background will most likely not qualify for this type of aid. Searching for private scholarships on the other hand will be beneficial to students of all economic situations. Both grants and scholarships are “free money” for designated college expenses like tuition, and not a loan that must be paid back with interest.

In reality, each year there are a number of grants and scholarships that go unused in the

Figure 19. Federal Grant Programs

Program	Amount	Eligibility & Details
Federal Pell Grant	Up to $5,500	EFCs of $5,273 or less generally qualify students for Pell grants. Undergraduate students only.
Federal Supplemental Educational Opportunity Grant (FSEOG)	$100-$4,000	For undergraduates with exceptional financial need (an EFC of 0). Pell grant recipients take priority.
Teacher Education Assistance for College and Higher Education Grant (TEACH)	Up to $4,000	Undergraduate and graduate students taking coursework to become an elementary or secondary school teacher. A TEACH Grant recipient must sign an Agreement to Serve, stating that he or she will teach full-time in a teacher shortage area for four complete years.
Iraq and Afghanistan Service Grant	Up to $5,500	For undergraduate students who are not eligible for Pell Grants, whose parent or guardian died in active duty in Iraq or Afghanistan after 9/11. The student must have been under 24 years old or enrolled at least part-time at an institution of higher education at the time of the parent or guardian's death.

Figure 20. State of Maine Grant Award Amounts

Institution Type	Part-Time Enrollment	Full-Time Enrollment
Maine Public Innovation	$500	$1,000
Maine Private Institution	$1,250	$625
Out of State Public Institution	$500	$250
Out of State Private Institution	$1,000	$500

State of Maine. It is your job to find the available "free money" for which you quality, fill out the applications, write the essays, and make yourself eligible for this financial assistance. Each Maine high school has local businesses or alumni who make scholarships available to graduating students at that school. Your high school guidance counselor will have a complete listing of those scholarships. Again, apply for each one that is appropriate for you!

One excellent resource for Maine students is The Finance Authority of Maine's scholarship search engine at http://www.FameMaine.com. This website allows students to search for scholarships from Maine-based foundations by educational level and major. Maine-based businesses and some national companies also offer scholarships. It is amazing what a simple "Google Search" on the Internet will reveal in this area. Some Maine students have been the recipient of large corporate-based scholarships, greatly lessening their post-graduation student loan debt!

Scholarship Scams

Beware of scholarships found online, as thousands of students each year lose money to entities that pose as scholarship providers. **No scholarship application should ever require you to pay money up front.** If you are being asked to pay an application fee, the scholarship is most likely not legitimate and the scholarship money usually never materializes.

Merit Scholarships

Scholarships valued at the full cost of tuition, or sometimes full tuition and room and board, may be granted to outstanding graduates of Maine high schools who wish to attend a state university. This type of scholarship is typically granted to the valedictorian or salutatorian of the class in selected high schools. Students ranking within the top 10 of their high school class may also be positioned for large merit scholarships, particularly at state universities. These scholarships are typically awarded based

Spotlight On: University of Maine

The University of Maine offers large Merit Scholarships to top graduates of Maine high schools, as well as to out-of-state and international students. The program is administered by the Office of Admissions, and not the Financial Aid Office.

The scholarships are offered to new, first-time, incoming first year undergraduate students who demonstrate outstanding academic achievement, standardized test scores, and an anticipated contribution to the university. To be considered for the scholarship, students must have:

- Completed a strong college preparatory program in high school
- Ranked at least in the top 40% of their high school class
- Achieved a minimum combined (critical reading and mathematics) score of 1100, or an ACT score of 24 at the time of application

Start Applying For Scholarships Early!

Don't wait for the last minute to apply for grants and scholarships. Start as soon as possible during your junior and senior year in high school. It is always a good idea to have your essays proofread by a trusted friend, parent, or teacher before submitting your scholarship application. It is also courteous to ask your teacher for a letter of recommendation at least two weeks before the scholarship application is due, as they may have recommendation letters to write for multiple students.

on GPA, rank in class, and standardized test scores.

Athletic Scholarships: Swim, run, skate, tackle, pitch and dunk your way to free college money!

A selected number of former Maine high school athletes are currently benefitting from partial or full ("full boat") athletic scholarships at Division I schools (Maine and out of state) and Division II schools (out of state only)—Division III colleges cannot offer purely athletic scholarships. The students who can balance the rigors and commitment involved in playing a collegiate sport at either the Division I or II levels are not only rewarded with a lifetime of memories of their college-level athletic accomplishments, but also have part or all of their college expenses reduced through those scholarships.

Athletic scholarships are generally given on a one-year, conditional basis; with the student/athlete's performance (academic/athletic/personal conduct) re-evaluated annually. Some student/athletes who arrive on campus with no athletic scholarship are able to "play" their way ("walk-on") into one with great on-field performance for their college team.

Students from Higher Income Brackets

Much of this chapter has focused on the affordability of various types of colleges for students who are eligible to receive federal financial gift aid. However, in 2011 only 35% of college students nationwide were eligible for the Pell Grant[43]. Given the extent to which tuition growth has dramatically outpaced family income growth, it is not only low-income students that are feeling the strain of paying for college. Students from middle-income and upper-middle income families are faced with little to no federal grant aid eligibility, and earnings not high enough to comfortably afford college without assistance. According to a recent study by the College Board, only 28% of families have incomes high enough to pay the average published price of tuition, fees, and room and board at a public university[44]. Many middle-income students who do not qualify for grants end up paying the same price for an education as someone who comes from a family with an annual income of $200,000.

Students in this category, those who are ineligible for federal grant aid, must be prepared to pay a higher net amount for college. These students should consider a

college that is likely to give them institutional gift aid (such as merit scholarships, athletic scholarships) and should also make every effort to apply for private scholarships in order to make up for the lack of federal aid eligibility.

Don't miss opportunities just because you assume you are not eligible for federal aid. It is important to fill out the FAFSA each year, due to the fact that many factors are considered when determining an EFC, and your eligibility status may change. Additionally, the FAFSA is the only way to apply for low interest federal loans for which all students are eligible, regardless of need.

Opportunity Maine Tax Credit

The State of Maine established a new college affordability program in 2008 that allows students who earned their degree in Maine and who plan to live and pay taxes in Maine after graduation to receive an annual tax credit designed to offset their student loan payments. The student may attend any college or university in Maine; however, the amount of the credit is capped at the cost of University of Maine system tuition.

The credit, which is intended to encourage Maine students to borrow responsibly, will only apply to loans taken out as part of a student's financial aid package. Therefore, loans taken out by family members, as well as most private loans, will not qualify. To be eligible for the Opportunity Maine Tax Credit:

- All credits earned for your degree must have been obtained at a college, university, or community college in Maine, or during a study abroad or transfer program sponsored by a Maine college. Currently, students who transfer to Maine colleges after up to a year out of state do not qualify.

- The borrower must earn an associate or bachelor's degree. You cannot receive the credit if you did not earn your degree, regardless of how much you paid in student loans.

Eligibility begins as soon as you begin making regularly scheduled payments on your loans. Prepayments cannot be claimed for the tax credit.

In order to receive this credit, you must finalize your documentation with your college's financial aid office at graduation time. For more information on this tax credit, contact your financial aid office or consult the Opportunity Maine website (listed in Free Resources Section on the back cover of the booklet).

Lifetime Learning Credit & American Opportunity Tax Credit

In addition to state tax credits, you may also be eligible to receive substantial federal tax credits for money spent on tuition, books, and other educational expenses.

The Lifetime Learning Credit can be claimed by any person taking college classes. It provides a federal tax credit of 20% of tuition expenses, and is capped at $2,000 on the first

$10,000 of tuition expenses. There are certain income limitations on this credit.

The American Opportunity Tax Credit is due to phase out in December 2012, but can still be claimed for tuition paid during the year 2012.

Visit the IRS website, www.irs.gov, for more information on these student tax credits.

Chapter 7

Working Your Way Through College

Back in the day, students who attended in-state public colleges were able to secure full-time summer jobs, supplemented with part-time employment during the school year, and in turn could graduate with little or no student loan debt.

The reality facing today's college student is that overall college costs (including tuition, room and board and textbooks) have risen far in excess of inflation over the past 30+ years, making the pay-as-you-go approach nearly impossible for most traditional students. As a result of skyrocketing tuition and incidental expenses, many of today's college-age generation have become a part of a culture of debt, in which living with loans has become the normal way of life. While they are still in the minority, some students have found that working to pay for living expenses while in school, instead of borrowing, saves a great deal of money and hassle after graduation. In fact, 40% of students enrolled full-time in college, and 73% of those enrolled part-time, are employed during the school year[45].

Seeking part-time employment during the school year can be a smart option for students to reduce postgraduate costs. While the cost of tuition may prevent you from graduating with no debt, there are many ways that you can reduce borrowing for school. We offer these "old school" financial tips for lessening student loan debt:

- Secure summer and in-school work-study employment whenever possible. During the summer, work as many hours as possible. However, be careful to always balance work hours during the school year with your academic needs.

- Create a separate "college fund" account at the bank to deposit a percentage of your earnings, reserving it for tuition costs.

- Save as much of your earnings as possible by resolving to eliminate discretionary spending (snacks, entertainment, new clothes, spring break trips, etc.). Every dollar saved and applied against your semester bills is a dollar you will not have to pay back with interest in the form of a higher student loan. You will thank yourself in later years for your hard work and sound money management skills!

- Avoid buying items with credit cards. The annual percentage rate (APRs) on credit cards can exceed 20% on unpaid balances, and greatly adds to the cost of the good or service purchased. Pay as you go with cash or debit cards when possible.

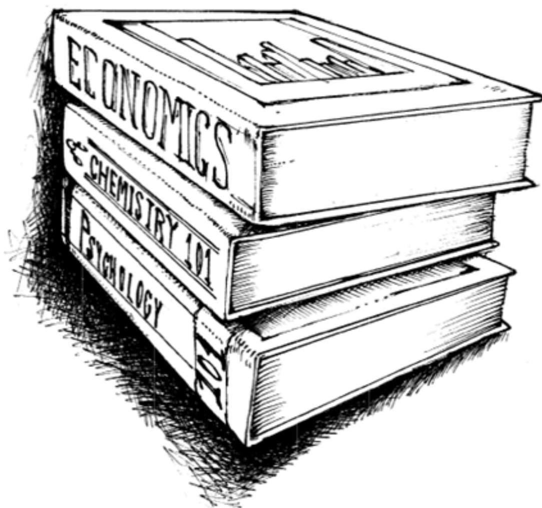
- Consider off-campus housing and preparing your own meals if possible and practicable. The bill for student housing and meals can equal or exceed the expense a student pays for tuition and textbooks.

Splitting housing and food costs with fellow students can be an economical approach when well-managed.

- Purchase used textbooks whenever possible. Some colleges offer "leased" book programs at a fraction of the cost of purchasing new texts.

- Utilize public transportation. Students who have a personal vehicle at school and are personally responsible for its costs (gas, insurance, maintenance) often pay several hundred dollars a month for use of that vehicle, money that could go into the special "college fund" account.

- Challenge your school's policy of requiring first year students to live on campus. Living off campus is almost always less expensive than living on campus, not to mention for a lower price you get your own room and can cook your own less expensive meals. Generally, this requirement can be appealed for personal, medical, or financial reasons if you can provide documentation for why you are unable to live on campus.



- Get free housing and meals by applying for a Resident Assistant (R.A.) position with your university. R.A.'s are selected based on GPA and a multitude of personal and professional attributes. This is a great way to live and eat on campus for free, and save money on transportation.

Use of Credit Cards among College Students

The college culture of debt is not limited to student loans. An alarming trend on college campuses is the widespread use of "plastic" (credit cards) to bridge the gap between college costs and financial aid. Students are turning to credit cards now more than ever to pay for books, meals, gas and entertainment. A study by Sallie Mae found that in 2008, the average credit card debt of an undergraduate student was $3,173.

College students continue to utilize credit cards for the opportunity to build much-needed credit. Unfortunately, many young people applying for their first card fail to read the terms and conditions before agreeing to open an account. While credit cards can be a good tool in establishing a favorable credit score for after graduation, they also have the potential for misuse. It is important for those who use credit cards to limit purchases to what they can reasonably afford to pay back. Ideally, the student should **only charge each month what they can pay back in full** when the credit card statement arrives. You may consider doing business with a local bank or credit union where you can "walk a payment in" and get a receipt if you are close to the payment

deadline, rather than worrying about mailing a payment off to a distant bank's processing center.

Federal Work Study Program

Approximately 3,400 universities and colleges across the country participate in the Federal Work Study program, under which students earn funding for school through part-time work. Students are granted work study by their school's financial aid office, which determines eligibility from the information provided on the FAFSA. This is a cost-sharing program, with the federal government subsidizing up to 50% of the student grantee's wages, thereby lessening the payroll burden of the college or university.

The amount of work study funds granted to a student is determined based on the following factors[46]:

- When the student applies
- The student's level of financial need
- The school's funding level

If you are planning to work on campus, and you are granted a federal work study, it is a good idea to accept this aid in your financial aid award, given that on some campuses there are *very few* jobs for non-work study students. Work study students are almost always given priority, since the school has to pay only a portion of the student's earnings.

Earnings & Work Hours

Work study earnings are issued directly to the student, by check or ACH deposit, and are never applied to tuition or college expenses without the permission of the student. There are no limitations on how the student can spend the money (i.e., it does not have to be applied to college expenses). The student must be compensated at a rate no less than the federal and state government minimum wage. The hours worked weekly by the student are determined by the employer, based on factors such as the total amount of work study funds granted, the student's class schedule, and his or her academic progress. A student cannot earn more money in one academic year than the total amount granted in the financial aid package. Once these funds have expired, the student must cease working or seek non-work study employment.

Types of Jobs

Work study jobs can often be found on or off campus. Work study students may gain employment in dining halls, in the library, or in university departments as student administrative aides or receptionists. Work study jobs can also be found off campus, with private nonprofit organizations or public agencies.

Afterward

Finding Your Balance

A wise man once said that "knowledge is power". A thorough knowledge of the financial aid process, the types of loans available to you for you education, and the exact terms of these loans empowers you to make an informed decision. You should now be more aware of the various choices available to you as you begin to explore ways to finance your postsecondary education. No consumer should take on a significant amount of debt without first knowing the true costs and risks. We hope that this guide has encouraged you to think before you borrow.

Finding balance, meaning selecting a college that you can afford and choosing a degree/career that will sustain you economically and intellectually, is of the utmost importance. Choose wisely, think carefully, ask questions in your high school guidance office, the college admissions and financial aid departments, and be sure to consult with recent college graduates. Find answers, be informed. Take with you the knowledge that you have gained from reading this *Common Sense* guide, and make a "balanced" choice for your post-secondary education. Have a realistic plan on how you will pay this debt back, after graduation.

Leaving the confines of your Maine hometown and going off to college—whether it's a short car trip to the University of Maine, a drive south to a Boston area college, or an airline flight to a far-away university—this is a major life moment. The fact is, what you are about to undertake, your post-secondary pursuit of a degree in hopes for a better quality of life, is a very challenging endeavor; one that will take all of your concentration, effort, and often a financial commitment (student loan) to achieve that sought-after degree. For most, going to college is a risk worth taking.

"You miss 100% of the shots that you don't take."

- Wayne Gretzky

We wish you the best in your pursuit of a post-secondary degree, and only ask that you give your college years a 100% effort. Make yourself and those around you proud of the great achievement that awaits you at the end of college--a well-earned diploma and a life filled with unlimited potential.

"The power of noble deeds is to be preserved and passed on to the future."

-Gen. Joshua Lawrence Chamberlain

The Finance Authority of Maine (FAME)

The Finance Authority of Maine is a quasi-Maine State agency created to provide financial solutions for Maine people to pursue business and higher educational opportunities. FAME is an excellent resource for Maine residents to pose their postsecondary education questions about loans, scholarships and investment plans.

The Finance Authority of Maine (FAME)
5 Community Drive
Augusta, ME 04332-0949

PH: 1-800-228-3734
FAX: 1-207-623-0095
TTY: 1-207-626-2717
Email: education@famemaine.com
Website: www.famemaine.com

FAME also offers the NextGen College Investment Plan; a Section 529 (IRS) Plan which is offered for Maine families as an investment account to help fund family member's higher education costs. For more information about the NextGen Plan contact FAME today!

Glossary

Accrue: To accumulate (interest).

Aggregate Loan Limit: The maximum amount of federal Stafford loan that a student can borrow over the student's lifetime.

Alternative Loan: A common synonym for private loan, or a loan that is not lent through the federal government.

Annual Percentage Rate (APR): The total cost of consumer credit expressed as a yearly rate.

Asset: An economic resource that holds positive economic value and can be converted into cash. The federal financial aid formula does not count home equity as an asset.

Borrower: The person who receives the loan.

Capitalization: The addition of the accumulated interest to the loan principal during a grace period or period of deferment of forbearance. Capitalizing interest increases the principal amount of the loan, and therefore the total amount that must be repaid. Put simply, this is interest on interest.

Consumer: A buyer of a good or service.

Cost of Attendance: The total amount it will cost you to go to school, usually expressed as a yearly figure, which includes tuition and fees, room and board, and miscellaneous expenses.

Debt-to-Income Ratio: A figure calculated to determine how much of a person's income is spent on debts.

Default: Failure to repay the loan in accordance with the master promissory note. This normally occurs after 270 days for a federal loan or 120 days for a private loan.

Deferment: A temporary period in which the borrower is not required to make payments.

Delinquency: A borrower becomes delinquent when he or she misses one student loan payment or fails to pay a loan payment on time. Late fees may be assessed.

Dependent Student: A student who is 23 years old or younger who relies on his or her parents for financial assistance.

Disbursement: The release of federal loan funds to the student or school. Any excess funds remaining after disbursement are given to the student in the form of a refund check.

Discharge: An order given by a bankruptcy judge that pardons or extinguishes remaining debts owed by the borrower.

Earning Potential: The salary a person is capable of earning after gaining significant experience in the field.

Endowment: A transfer of funds donated to an institution.

Expected Family Contribution (EFC): An amount of money, determined by the FAFSA student aid report, that students or their families are expected to contribute to the cost of education over a year's time.

Federal Need Analysis Method: The federal methodology used to calculate a student's expected family contribution (EFC).

FICO Score: A credit score, ranging from 300 to 850, that is used by all three major credit reporting agencies.

Fixed Rate: An interest rate that stays the same for the life of the loan.

Forbearance: A postponement of payment on a loan for reasons such as poor health or financial hardship. Forbearance is typically granted when the borrower does not qualify for a deferment. Interest continues to accrue during forbearance.

Forgiveness: The total or partial cancellation of a student loan.

Grace Period: A six month period before which the student borrower must make the first payment on a federal subsidized or unsubsidized Stafford loan. The grace period commences the day after the student drops below half time enrollment.

Independent Student: A student who is 24 years or older as of December 31st of the award year; a graduate or professional student, married, who has legal dependents or is a veteran of the U.S. Armed Forces.

Index: Published figures that can be used to determine monthly interest rates on private student loans. The two main indices used are LIBOR and Prime rate.

Investment: The purchase of a financial product with the hope that it will generate future profit.

Lender: An individual or entity that makes funds available for others to borrow.

Margin: A fixed figure, based on the creditworthiness of the borrower, which determines the interest rate on a private student loan.

Negative Amortization: An increase in the principal balance of a loan that results when a borrower makes payments that are less than the amount of interest that accrues.

Net Cost: The actual cost of education expressed as a sum of the family's contribution from income assets, as well as student loans and the amount contributed by the student from work.

Origination Fee: A fee that a lender deducts for itself from each federal student loan upon disbursement.

Principal Balance: The amount owed on a loan, including any capitalized interest.

Master Promissory Note: A legally binding contract between the borrower and the lender that outlines the terms and conditions of repayment of the loan.

Public Inflation: The theory that when loans and credit are easily available, that availability may actually lead to an increase in price of the good or service being purchased.

Repayment Period: The period during which the borrower is obligated to make payments on his or her loan.

Sticker Price: The published price of a school, usually including room and board that does not take into account financial aid.

Student Aid Report (SAR): A report issued by the Department of Education to the financial aid office of a school, that shows the student's EFC and other financial information.

Subprime Lending: The issuing of loans to borrowers who likely will have difficulty making the scheduled monthly payments.

Subsidized: A subsidized loan is a need-based student loan. Interest that accrues on a subsidized Stafford loan while the student is in school is paid by the federal government.

Term: The number of years of months during which the loan must be repaid.

Underemployment: An employment situation that is insufficient for the worker, due to the employee having education, experience or skills beyond that required by the job. Someone who is working part-time but desires full-time employment is also said to be underemployed.

Unmet need: The difference between the cost of attendance at a school and the total financial aid award, after the student's EFC is subtracted.

Unsubsidized: A non-need based loan, in which the borrower is responsible for interest that accrues while the student is in school.

Wage Garnishment: The practice of withholding a portion of a borrower's wages, without his or her consent, in order to pay off a student loan. Debt collectors may be able to garnish a former student's wages for student loans in default without first obtaining a court judgment.

Title IV Federal Funding: Financial aid programs, such as grants, loans and work study programs, authorized under Title IV of the Higher Education Act of 1965.

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PUBLICATIONS

Be sure to check out other free booklets from the
Bureau of Consumer Credit Protection:

- **Downeaster Guide to Auto Buying and Financing —** From calculating "how much vehicle" you can afford, to vehicle research, shopping for the best APR and deciding on the best loan term for your needs, this booklet is a comprehensive guide to purchasing and financing a vehicle.

- **Downeaster Common Sense Guide: Gone Phishing**— This guide teaches consumers how to identify and void consumer scams. This book discusses detecting scams, and how to avoid and fight back against a variety of today's most notorious financial scams.

- **Downeaster Common Sense Guide: Finding, Buying and Keeping Your Maine Home** — This guide is a resource for first time homebuyers, and provides an overview of the mortgage lending process, types of mortgage lenders and loans, and other related topics.

- **Downeaster Guide to Elder Financial Protection —** The "how-to" guide for Maine seniors who are interested in stopping unwanted telemarketing calls, pre-approved credit offers, and junk mail. This guide has sections on how to stop identity theft and how to recognize and stop elder financial exploitation.

- **Downeaster Guide: Consumer Credit 101 —** This comprehensive booklet explains the "ins and outs" of: auto-buying and financing, credit cards, mortgage loans, buying land, debt collection rights, credit reports and credit histories, plus a partial listing of Maine and federal consumer credit laws and regulations.

These guides are free to Maine residents. Out-of-state orders are $6.00 each, or at a volume discount of $4.00/copy on orders of 50 or more (shipping included).

To order, call 1-800-332-8529 (in-state) or 1-207-624-8527 (outside of Maine).

Free Student Loan Resources

Consolidation Loan Interest Rate	http://loanconsolidation.ed.gov/help/rate.html
Direct Loan Service Center	https://www.acs-education.com/CS/Jsp/general/home.jsp
Direct Loan Servicing Center	http://www.direct.ed.gov/student.html
FAME Scholarship Search	http://www.famemaine.com/files/StaticPages/Education/Scholarship_Search.aspx
Federal Loan Payment Calculator	http://www.finaid.org/calculators/loanpayments.phtml
Financial Aid Award Letter Comparison Tool	http://www.finaid.org/calculators/awardletter.phtml
Income Based Repayment Calculator	http://studentaid.ed.gov/PORTALSWebApp/students/english/IBRCalc.jsp
Interest Capitalization Calculator	http://www.finaid.org/calculators/scripts/interestcap.cgi
National Student Loan Data System	http://www.nslds.ed.gov/nslds_SA/
Opportunity Maine Tax Credit	http://www.opportunitymaine.org

The Maine Bureau of Consumer Credit Protection offers a fact-filled 60 page booklet entitled Downeaster Guide: Consumer Credit 101. The booklet provides answers many of the important questions about consumer loans: how to establish and shop for credit using APRs, how credit reports and credit scores work, how to order a free credit report, automobile buying and financing, your rights in a collection action, and the responsible use of credit cards. The guide is available free of charge to Maine residents—just call 1-800-332-8529 and ask for the Credit 101 booklet!

Time Warner Cable (TWC) Maine also periodically airs the ten-part video version of the Credit 101 publication on their local channels in many Maine communities. Check your local listings for rogram dates and times.

Stafford Loan Payments

Amount Borrowed	APR*	Term (Months)	Monthly Payment	Total Interest	Total Amount Repaid
$5,000	6.8%	120	$57.54	$1,904.82	$6,904.82
$10,000	6.8%	120	$115.08	$3,809.64	$13,809.64
$15,000	6.8%	120	$172.62	$5,714.46	$20,714.46
$20,000	6.8%	120	$230.16	$7,619.28	$27,619.28
$25,000	6.8%	120	$287.70	$9,524.10	$34,524.10
$30,000	6.8%	120	$345.24	$11,428.92	$41,428.92
$35,000	6.8%	120	$402.78	$13,333.74	$48,333.74
$40,000	6.8%	120	$460.32	$15,238.56	$55,238.56
$45,000	6.8%	120	$517.86	$17,143.38	$62,143.38
$50,000	6.8%	120	$575.40	$19,048.20	$69,048.20
$55,000	6.8%	120	$632.94	$20,953.02	$75,953.02
$60,000	6.8%	120	$690.48	$22,857.84	$82,857.84
$65,000	6.8%	120	$748.02	$24,762.66	$89,762.66
$70,000	6.8%	120	$805.56	$26,667.48	$96,667.48
$75,000	6.8%	120	$863.10	$28,572.30	$103,572.30
$80,000	6.8%	120	$920.64	$30,477.12	$110,477.12
$85,000	6.8%	120	$978.18	$32,381.94	$117,381.94
$90,000	6.8%	120	$1,035.72	$34,286.76	$124,286.76
$95,000	6.8%	120	$1,093.26	$36,191.58	$131,191.58
$100,000	6.8%	120	$1,150.80	$38,096.40	$138,096.40
$105,000	6.8%	120	$1,208.34	$40,001.22	$145,001.22
$110,000	6.8%	120	$1,265.88	$41,906.04	$151,906.04
$115,000	6.8%	120	$1,323.42	$43,810.86	$158,810.86
$120,000	6.8%	120	$1,380.96	$45,715.68	$165,715.68
$125,000	6.8%	120	$1,438.50	$47,620.50	$172,620.50
$130,000	6.8%	120	$1,496.04	$49,525.32	$179,525.32
$135,000	6.8%	120	$1,553.58	$51,430.13	$186,430.13
$140,000	6.8%	120	$1,611.12	$53,334.95	$193,334.95
$145,000	6.8%	120	$1,668.66	$55,239.77	$200,239.77
$150,000	6.8%	120	$1,726.20	$57,144.59	$207,144.59
$155,000	6.8%	120	$1,783.75	$59,049.41	$214,049.41
$160,000	6.8%	120	$1,841.29	$60,954.23	$220,954.23
$165,000	6.8%	120	$1,898.83	$62,859.05	$227,859.05
$170,000	6.8%	120	$1,956.37	$64,763.87	$234,763.87

* The annual percentage rate (APR) given is based on the rate established for unsubsidized federal Stafford loans for the 2012-2013 year. Subsidized loans carry an interest rate of 3.4%

NOTES

This book is not intended to be a complete discussion of all statutes applicable to consumer credit. If you require further information, consider contacting our agency or an attorney for additional help.

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Bureau of Consumer Credit Protection
35 State House Station
Augusta, ME 04333-0035
www.Credit.Maine.gov