

College Borrowing

Very few families are able to pay for college without some borrowing. Although our seminar encourages families to avoid excessive borrowing, reasonable borrowing is often needed.

Below are the many and varied ways that families can borrow money to pay for college.

- 1) **The Direct loan** – a student loan and not a parent loan. All financial obligation to repay the loan is the students, either when they leave college or graduate. There are multiple methods of repaying including the standard method (10 years, monthly, beginning 6 months after graduation). Maximums are \$5500 in freshman year, \$6500 in sophomore year, \$7500 in each of junior and senior years, \$4000 if student attends a 5th year. Current interest rate is 4.45%. All undergraduate students are eligible once FAFSA is filed.
- 2) **Perkins loan** – student loan available (via the college) to families with excessive financial need. Interest rate is 5%. Eligibility and maximums are determined by college.
- 3) **Home loan borrowing** by either refinancing, establishing a home equity loan, or establishing a line of credit against the home is a method used by some parents to finance college costs. Interest rates, fees, and features are based on the amount of equity in one's home, the credit rating of the borrower, and the entity (bank or mortgage company) providing the loan.
- 4) **Borrowing against one's retirement plan.** Some 401k and/or 403b plans allow for borrowing options. This method typically demands that the repayment on the loan occur during a five-year period.
- 5) **The Parent Loan to Undergraduate Students (PLUS)** – loan most often used by parents to fund education. Current interest rate is 6%. Payment (principal and interest) typically begins soon after disbursement of loan with repayment occurring monthly during a ten year window.
- 6) **Alternative Student Loan** – loans made available by private lenders to supplement the direct loan option when needed. Although these are student loans, typically a co-signer is required.