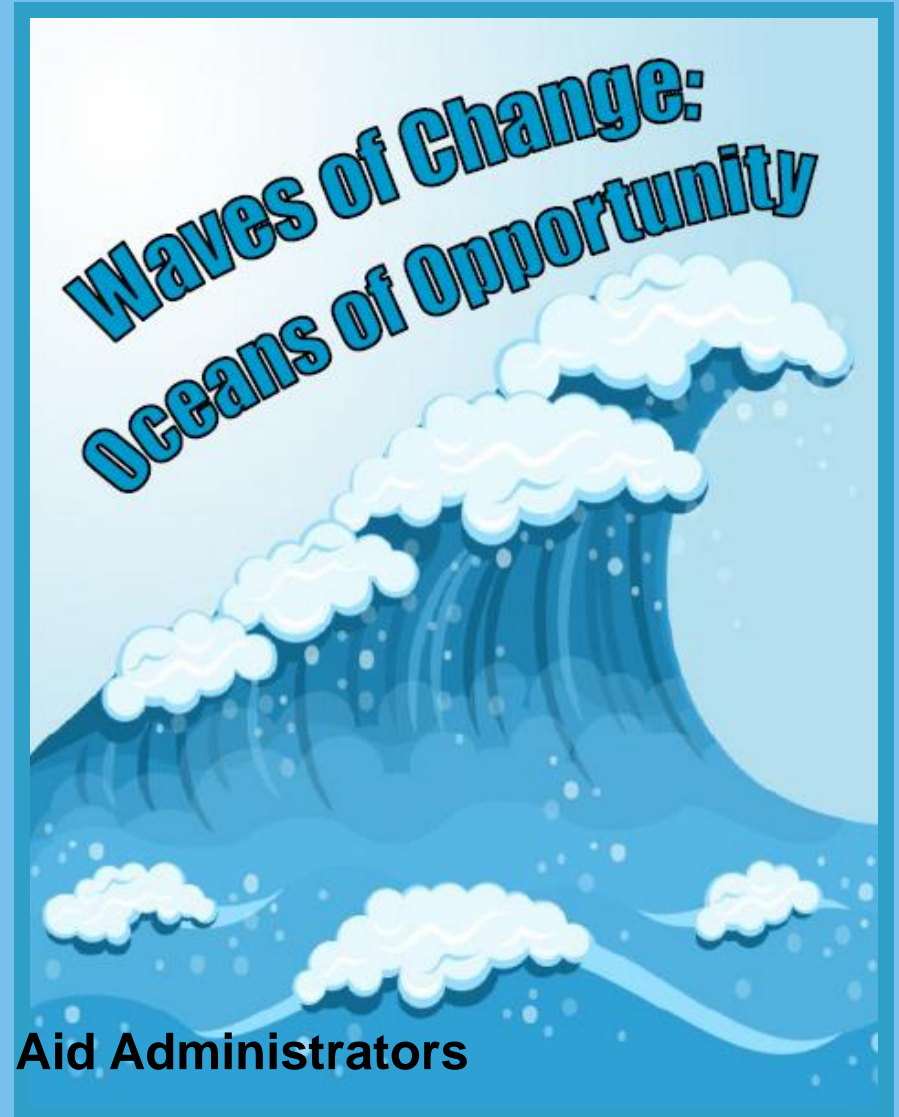


# How to Reduce Student Debt

Michael Collins,  
Assistant Director – External Loans  
Case Western Reserve University

Jeff Johnston, MBA  
Sallie Mae



**Ohio Association of Student Financial Aid Administrators  
Spring Conference 2017**

**Special Thanks to our  
Conference Sponsor  
Great Lakes  
Educational Loan  
Services, Inc.**

**“Waves of Change: Oceans of Opportunity”  
Ohio Association of Student Financial Aid Administrators  
Spring Conference 2017**

# Earning Credit at Reduced Costs

- College Credit PLUS (CCP)
  - During High School
  - Summer Class(es) summer after High School?
- Advanced Placement (AP)
- International Baccalaureate (IB)
- College Level Examination Program (CLEP)
- 2&2, 1&3, 4&1, 3&3, etc.
  - After high school, leveraging Community College before enrolling in four year schools.
  - Enrolling in combined programs that shorten time to graduate degree.
- Earning credit at other (less expensive) institutions and transferring it back to home school.
  - Summer Classes either locally or online.

# Graduate On Time

- 60 percent of first-time, full-time students who began seeking a bachelor's degree at a 4-year institution in fall 2008 completed the degree at that institution by 2014.
  - 6 years, only 60%!
- The 6-year graduation rate was 58 percent at public institutions, 65 percent at private nonprofit institutions, and 27 percent at private for-profit institutions.
- Adding an additional year of college for a four year degree:
  - Increases lost wages' opportunity cost.
  - Increases investment in that degree by 25%.
- Source: <https://nces.ed.gov/fastfacts/display.asp?id=40>

# Scholarship Resources

- There are many resources for scholarships:
  - Local or community-based scholarships
  - Federal and state agencies
  - College-specific scholarships offered by the colleges your students are interested in attending
  - Religious organizations, Libraries, Employers, Private organizations or major companies
  - Online search engines that aggregate scholarship offerings and allow users to be matched to scholarships based a personal profile
- How to Promote Scholarships to your students:
  - Add scholarship information and links to the counseling section of your website
  - Host a scholarships brown bag lunch and invite previous scholarship winners to talk about their search and application experiences
  - Host a scholarship essay writing workshop
  - Partner with community-based organizations to send mailings or emails about scholarships
  - Leverage school communications regularly sent to students
  - Publish a scholarship article in the school newspaper

# Student Income

- Summer Income
- Part-Time Income (during semesters)
- Work-Study
  - The National Center for Education Statistics (NCES), which is run by the U.S. Department of Education, found that students working 1-15 hours weekly have a significantly higher GPA than both students working 16 or more hours and students who don't work at all.
- Source: [http://www.byu.edu/hr/sites/default/files/effects\\_of\\_student\\_employment.pdf](http://www.byu.edu/hr/sites/default/files/effects_of_student_employment.pdf)
- Co-op Programs
- Paid Internships

# Parent Income

- Tuition Payment Plans
- Example to directly reduce your student's debt:
  - \$250 per month, 5 months per semester, for 8 semesters =

**\$10,000**

# Parents/Sponsors Can Borrow

- 401(k) Plans
- Long-Term Investments
- Home Equity Loans/Lines of Credit
- Credit Cards
- Federal PLUS Loans
- Private Parent Loans



# Do NOT Miss Deadlines!

- Priority FAFSA Filing
- Registration for classes (especially required core classes)
- Scholarships
  - Inside and Outside
- Payment Due Date for Balances
  - Late fees when there are documents in process for the student.
- Payments on student loans.
  - Late fees
  - Consider Auto-Debit to prevent late fees and often, earn an interest rate reduction.
- Perhaps this slide should be titled: Open and read your email.

# Live Like a College Student

“A luxury once enjoyed becomes a necessity.”

Understand wants vs needs

Limit Borrowing to what is truly needed

- Do not just borrow maximum eligibility based on COA
- Do not use loan funds for “wants”

# Manage Your Money (Budget)

## Budgeting Steps:

- 1. Document Your Income:** Remember, your annual salary is not your take home pay. After taxes and other items like insurance the amount you bring home is much lower.
- 2. Itemize Your Expenses:** keep a log of monthly expenses to determine your spending habits. There are two types of expenses.
  - Fixed expenses – expenses that remain the same each month (i.e. rent, car payments, insurance, monthly savings plan, etc.)
  - Variable expenses – expenses that change each month. (i.e. clothing, food, entertainment, etc.)
- Compare Your Expenses to Income.** When all is said and done, your cash balance should be zero; that is, income and expenses should be equal. If your income exceeds your expenses you have money left over to put savings, retire debt, etc.

# Know What You Owe

Put together a snapshot of what you owe

Student loans (Sub)	\$	_____
Student Loans (Unsub)	+\$	_____
Student Loans (Private)	+\$	_____
Other money owed:		
• Credit Cards	+\$	_____
• Other	+\$	_____
<b>TOTAL</b>	<b>\$</b>	_____

# Pay Interest While In School

- Pay accruing, not yet capitalized interest while in school on Direct Unsubsidized Loans, Private Student Loans, and Graduate PLUS Loans.
  - Shortens loan term
  - Many private lenders discount their interest rate for doing so
  - Avoids Capitalization (i.e. avoids paying interest on interest)
- Interest Capitalization occurs when unpaid interest is added to the principal amount of a loan, increasing the principal amount outstanding
  - <http://www.finaid.org/calculators/scripts/interestcap.cgi>
  - For a \$30,000 loan at 4%, a one year forbearance with accrued interest that capitalizes costs an additional \$256.80 over the life of the loan.

# No Prepayment Penalties

- Student borrowers can always prepay federal student loans without penalty
  - Some private student loans can also be prepaid without penalty
    - NOTE: student borrowers should check with their servicer
- Be aware of the relative cost
  - After making the scheduled monthly payment, make additional payments towards private loans and/or unsubsidized federal loans that have the highest interest rates and/or most frequent capitalization to save money
- Loan payments are typically applied first toward fees, then interest, and finally principal – check your loan agreement for additional information

# Take Advantage of Tax Benefits

Don't forget to consider many of the tax benefits that are offered to families with college students. To find out if you qualify, call the IRS Help Line at 800-829-1040 or review IRS Publication 970, Tax Benefits for Education at [irs.gov](https://www.irs.gov).

- American Opportunity Credit provides federal taxpayers with a tax credit of up to \$2,500 per student per year for up to four years, for qualified tuition and related expenses.
- Lifetime Learning Credit provides federal taxpayers with a non-refundable tax credit of up to \$2,000 per student per year per eligible school tuition and fees, as well as for books, supplies, and equipment that were required for the course and had to be purchased from the school
- Coverdell Education Savings Accounts and Qualified Tuition Programs (QTP) also called “529 plans”.
- Student Loan Interest Deduction allows taxpayers who qualify to deduct up to \$2,500 of student loan interest paid during the tax year directly from their taxable income.

*Please consult your tax advisor or the IRS regarding student loans and taxes.*

# Best Practices for Borrowers



## Make payments automatically

You won't forget to make your payment and you could also get a reduction on your interest rate.



## Make payments each and every month

Resist putting off your payments, as deferment or forbearance typically means you'll pay more over the life of the loan.



## Pay a little extra each month

Extra payments can help you pay off your loan faster.



## Create a budget

Track your monthly expenses to help you cut out unnecessary items and pay down your debt even faster.



## If you fall behind, get help

Call your loan servicer to discuss your options. Changes to your payment plan may provide the flexibility you need.



## Build an emergency fund

Aim to save \$500 to \$1,000 to cover unexpected expenses.



## Beware of scams

Fraudulent companies might claim to offer easy ways to lower your loan payments and even try to charge you fees. If you have doubt about a service offered, contact your servicer.



## Don't miss important information

Keep your loan servicers updated with any change in mailing address, email, and phone numbers so they can keep in touch with you.



# CWRU Loan Indebtedness Emails

- Identify 2<sup>nd</sup> year students with more than \$20k in loan debt
  - \$20k is the max direct loans a student can borrow in 2 years
- Send request for in-person meetings as well as electronic
  - Financial Literacy program for those who won't come in person

# CWRU Loan Indebtedness Emails

- Set clear goals with the students
  - Not a session to find them extra funding
  - Want to make sure they are aware of borrowing
  - Make sure they understand how loans work
    - They have to be paid back!
  - Options to minimize total amounts owed

# CWRU Loan Indebtedness Emails

- Give general information on how aid is determined
  - Goal is to help student understand that aid being given is maximum they're able to receive
- Show student total amount borrowed and how that would grow if trend continues

# CWRU Loan Indebtedness Emails

- Use repayment calculators to estimate repayment information
  - Give an idea of current repayment and how that would change with increased borrowing
  - Show different scenarios that could decrease total amounts paid
    - Payments: \$25 monthly, \$100 monthly, \$500 yearly