

**Show Them the Money**



**Strategies for Helping Undergraduates Prepare Financially for Graduate School**

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**What do you think students need to know?**




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**What Undergraduates Need to Know About Financing a Graduate Education**

- **Cost of graduate school in perspective**
  - Cost of graduate education
  - Borrowing trends of recent graduates
  - Salary trends of recent graduates
- **Financing options and how those options differ from undergraduate options**
- **Role of good credit in obtaining portion of needed aid**
- **Impact of debt on financial future**
- **Strategies to reduce spending and borrow less**
- **Ways to avoid problems**




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**A Few Statistics . . .**  
*An Illustration From Legal Education*

- Cost of law school
- Average borrowing to attend law school
- Median starting salaries of new attorneys




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**Cost of Law School**  
*2006-2007 Averages*

Item	Public <i>Resident</i>	Public <i>Non-resident</i>	Private
Tuition and fees	\$14,245	\$25,227	\$30,520
Off-campus living expenses and books	\$15,041	\$15,041	\$17,090
<b>Total</b>	<b>\$29,286</b>	<b>\$40,268</b>	<b>\$47,610</b>

Data provided by ABA Section on Legal Education from Annual Questionnaire (2006)

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**Average Borrowing in Law School**  
*By Graduating Class*

Institution Type	Class of <b>2003</b>	Class of <b>2004</b>	Class of <b>2005</b>	Class of <b>2006</b>
<b>Public Law School</b>	\$45,763	\$48,910	\$51,056	\$54,509
<b>Private Law School</b>	\$72,893	\$76,563	\$78,763	\$83,181

Data provided by ABA Section on Legal Education from Annual Questionnaire (2003, 2004, 2005, 2006)

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**Starting Salaries of New Attorneys**  
**Class of 2006**

Employer Type	National Median Starting Salary
All employer types	\$62,000
Academic	\$45,000
Business	\$65,000
Judicial clerkships	\$46,450
Government	\$48,000
Private practice	\$95,000
Public interest	\$40,000

Salary data taken from "Jobs & J.D.'s: Employment and Salaries of New Law Graduates – Class of 2006, published by NALP

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**Additional Costs That Students Should Plan For When Considering Graduate School**

- Admission test preparation expenses
- Cost to take entrance exams (e.g., GMAT, GRE, LSAT, MCAT,)
- Admissions services (e.g., AAMC, LSDAS)
- Application fees
- School visit expenses
- Seat deposits
- Relocation expenses




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**Strategies for Success in Financing a Graduate Degree**

Encourage your students to:

- Investigate all financing options
- Know how to apply for financial aid and meet all deadlines
- Understand the terms and conditions for all the financial assistance they are offered
- Utilize federal student loan programs to the full extent possible before they consider applying for any private student loans
- Plan their budget and evaluate the impact of any planned borrowing of student loans
- Borrow the minimum amount possible to achieve their goals
- Develop and maintain good credit




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## Financing Options

- Personal/family resources
- In-school employment
- Grants/scholarships
- Institutional student loans
- Federal student loans
- Private student loans

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## How does graduate financing differ from undergraduate financing?

- Fewer grants/scholarships, e.g., no Federal Pell Grants for graduate students
- More of financing is loan based
- Graduate students are financially independent for federal eligibility
  - However, schools may still consider graduate students financially dependent on parents for purposes of awarding institutional funds
- Credit history plays a bigger role in borrowing loans, e.g., Grad PLUS
- Other differences?

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## Education Loan Programs

### Graduate/Professional Students

- **Federal Stafford Loan (FFELP/Direct)**
  - Subsidized
  - Unsubsidized
- **Federal PLUS Loan (FFELP/Direct)**
- Federal Perkins Loan
- Alternative/Private Loans
- Institutional Loans

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**Federal Stafford Loan**  
**Graduate/Professional Students**

2008-2009	
Federal Default Fee	1% (can be subsidized by guarantor or lender)
Origination Fee	1.0% (can be subsidized by lender)
Interest Rate	Fixed at 6.8%
Annual Loan Limit	\$20,500 (no more than \$8,500 as subsidized)
Aggregate Limit	\$138,500 (no more than \$65,500 as subsidized)
Credit Criteria	None
Grace Period	6 months
Repayment Plans	Standard, Graduated, Income Sensitive, Extended (if eligible)
Repayment Period	10 to 25 years (depends on plan chosen)

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**Federal PLUS Loan**  
**Graduate/Professional Students**

2008-2009	
Federal Default Fee	1% (can be subsidized by guarantor or lender)
Origination Fee	3% (fee must be deducted from loan proceeds)
Interest Rate	Fixed at 8.5% in FFELP Fixed at 7.9% in Direct Loan Program (interest is not subsidized, it begins accruing as soon as loan funds are disbursed)
Annual Loan Limit	COA less other financial aid
Aggregate Limit	No aggregate borrowing limit
Credit Criteria	Cannot have adverse credit history (endorser option may be available if borrower has adverse credit)
Grace Period	None; repayment begins within 60 days after loan is fully disbursed (deferments or forbearance may be available)
Repayment Plans	Standard, Graduated, Income Sensitive (FFELP) or Income Contingent (Direct), and Extended (if eligible)
Repayment Period	10 to 25 years (depends on plan chosen)

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**Federal PLUS Loan**  
**Adverse Credit History Criteria**

Adverse credit is when at least one of the following is on the applicant's credit report:

- Currently 90 days or more delinquent on repayment of any debt
- Debt has been discharged in bankruptcy during the past 5 years
- Evidence of a default, foreclosure, tax lien, repossession, wage garnishment, or write-off of a Title IV debt during the past 5-years




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**Private Loans**  
*Terms Vary By Lender*

<b>Loan Fee</b>	0% to ? <i>(depends on lender)</i>
<b>Interest Rate</b>	<b>Variable</b> – based on credit history, usually calculated using an index (LIBOR or Prime) plus a spread/margin
<b>Credit Criteria</b>	<b>Cannot have adverse credit history</b> <i>(typically based on credit score)</i>
<b>Grace Period</b>	<b>6 to 12 months</b> <i>(depends on lender)</i>
<b>Repayment Plan(s)</b>	Standard, Graduated, other(?)
<b>Repayment Period</b>	<b>10 to 30 years</b> <i>(depends on lender)</i>

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**Private Loans**  
*What should students consider?*

- Private loans should be considered only after exhausting all federal student loan eligibility
- If private loans are needed, then student should carefully evaluate the following before choosing a lender/loan program:
  - Cost—interest rate, fees, payment incentives
  - Credit criteria and approval rates
  - Repayment terms and payment options
  - Grace period, deferment, and forbearance
  - Reputation of lender
  - Quality of customer service




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**Web Resources for Students Planning to Attend Graduate School**

- **General and specialized graduate programs:**
  - [www.gradschools.com](http://www.gradschools.com)
- **Law School:**
  - [www.lsac.org](http://www.lsac.org)
  - [www.abanet.org/legaled/prelaw/prep.html](http://www.abanet.org/legaled/prelaw/prep.html)
- **MBA programs:**
  - [www.thembatour.com](http://www.thembatour.com)
- **Medical School:**
  - [www.aamc.org/medicalschoools.htm](http://www.aamc.org/medicalschoools.htm)
- **Dental School:**
  - [www.ada.org](http://www.ada.org)
  - [www.asda.org](http://www.asda.org)




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## Sampling of Scholarship Resources for Prospective Graduate Students

- **General and specialized graduate programs:**
  - [www.cgsnet.org](http://www.cgsnet.org)
- **Law School:**
  - [www.lisac.org/Financing/Financing-menu.asp](http://www.lisac.org/Financing/Financing-menu.asp)
  - [www.equaljusticeworks.org](http://www.equaljusticeworks.org)
- **Medical School:**
  - [www.medicalschools.com/medical-allied-health-financial-aid-scholarships.html](http://www.medicalschools.com/medical-allied-health-financial-aid-scholarships.html)
- **Dental School:**
  - [www.adea.org/Awards/default.htm](http://www.adea.org/Awards/default.htm)



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## Helping Students Understand the Importance of Borrowing the Minimum Amount Possible and How To Do So



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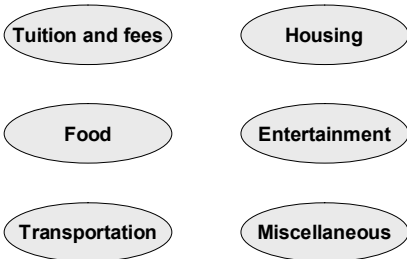
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## Budget Planning

*Cost depends on the choices your students make!*



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### Paying for Their Investment

Consider asking students . . .

Which of **YOUR** financial resources will you be using to pay for your education?

- Savings and other assets
- Gifts from family and others
- In-school earnings
- **Your future income**

You need a **strategy for success** if you hope to spend your future income wisely!

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### Borrowing the Minimum Loan Amount Possible

- Determine how much you think you'll need to borrow while in school
  - Requires estimating your in-school budget
- Evaluate if you can afford to repay that debt
  - Requires calculating how far your future paycheck will go – your future budget
- If that amount is not affordable, make adjustments before you borrow
  - Revise your in-school budget




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### Planning A Future Budget

How much will your students have to repay?

Total student loan borrowing	\$
Capitalized interest	+ \$
Total debt at repayment	\$
<b>Monthly loan payment</b>	<b>\$</b>

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### Planning Your Future Budget

How far will your future paycheck go?

Annual salary	\$
Monthly salary	\$
Monthly paycheck <i>(net income)</i>	\$
Monthly loan payment	-\$
Monthly payment on credit card(s)	-\$
<b>Disposable monthly income</b>	<b>\$</b>

Will you have enough money for your other expenses each month once you graduate?

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### Planning Your Future Budget

Monthly Living Expenses

Housing	\$
Utilities <i>(inc. phone)</i>	\$
Food <i>(groceries, eating out, snacks, etc.)</i>	\$
Clothing <i>(purchases, cleaning, etc.)</i>	\$
Transportation <i>(car payment, insurance, gas, etc.)</i>	\$
Entertainment	\$
Misc. personal	\$
Retirement <i>(10%)</i>	\$
<b>TOTAL</b>	<b>\$</b>

Will you have enough money for your other expenses each month once you graduate?

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### Planning Your Future Budget

Monthly Balance Sheet

Disposable income	\$
- Living expenses	-\$
<b>SUBTOTAL</b>	<b>\$</b>
- Savings	-\$
<b>Balance</b>	<b>\$</b>

Your budget must have a zero or positive balance; it cannot have a deficit in the long-term.

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### Reducing Your Students' Need to Borrow In-school Strategies

- **Borrow less**
  - **Revise in-school budget**
    - Live more cheaply
    - Increase resources by working, etc.
    - Apply for grants/scholarships
  - **Use cash, not credit cards**
- **Develop good financial habits**




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### Strategies to Reduce Spending

- Live with roommate(s)
- Take your own lunch; bring your own coffee, snacks, etc.
- Eat at cheap places when dining out
- Have only one phone—either cell or home phone
- Avoid excess phone features and services that add to your phone's cost
- Have "free fun"
- Rent/share DVDs or go to matinees
- Dress for less—shop at discount stores
- Clip & use coupons, but only on things you need
- Use public transit, carpool
- Shop with a list and buy only what's on that list
- Beware of "impulse" shopping and buying for "convenience"
- Other ideas ???

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### What is \$3/day worth?

#### Future Cost of Spending an Extra \$3/Day

	2-Yrs	3-Yrs	4-Yrs
Daily cost	\$3	\$3	\$3
Days per week	5	5	5
Total weekly cost	\$15	\$15	\$15
Number of weeks per year	52	52	52
Total yearly cost	\$780	\$780	\$780
Number of years in school	2	3	4
Total cost while in school	\$1,560	\$2,340	\$3,120
Annual interest rate	6.8%	6.8%	6.8%
Repayment period (# of months)	120	120	120
<b>Est. monthly loan payment</b>	<b>\$20</b>	<b>\$31</b>	<b>\$42</b>
TOTAL PAID	\$2,393	\$3,698	\$5,078
TOTAL INTEREST PAID	\$833	\$1,358	\$1,958

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### What is \$300/month worth?

*Benefit of an Added Roommate*

	2-Yrs	3-Yrs	4-Yrs
Monthly savings in your share of housing costs	\$300	\$300	\$300
Number of months per year	12	12	12
Total yearly savings	\$3,600	\$3,600	\$3,600
Number of years in school	2	3	4
Total cost while in school	\$7,200	\$10,800	\$14,400
Annual interest rate	6.8%	6.8%	6.8%
Repayment period (# of months)	120	120	120
<b>Possible savings in monthly loan payment</b>	<b>\$92</b>	<b>\$142</b>	<b>\$195</b>
TOTAL PAID	\$11,042	\$17,070	\$23,435
TOTAL INTEREST PAID	\$3,842	\$6,270	\$9,035

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### Managing Loan Repayment

*Out-of-school Strategies*

What can you encourage your students to do?

- Fully understand the terms and conditions of their education loans and repayment options
- Consider alternative repayment plans that will extend repayment and reduce monthly loan payments
- Use cash, not credit cards to avoid increasing their consumer debt
- Revise their out-of-school budget plan; try to live more cheaply and develop good financial habits
- Apply for **Loan Repayment Assistance/Loan Forgiveness Programs**




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### Students need to prepare now by:

- Curtailing spending
- Paying off all existing credit card debt
- Developing and maintaining good credit
- Saving money
- And when ready:
  - Applying for financial aid




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**And remember, they should . . .**

- Utilize **federal student loan** programs to the full extent possible before they consider applying for any private student loans
- **Plan their budget** and evaluate the impact of any planned borrowing of student loans
- Borrow the **minimum** amount possible to achieve their goals
- Develop and maintain good credit



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**We're here to help you!**

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