

Financing Higher Education: College Loans

Given the current malaise in the credit markets, many private lenders have tightened standards and made it more difficult and more expensive for borrowers (both students and parents). At the same time, many families, facing dwindling personal assets and rising college expenses, are searching for strategies to pay the bill. Deciding whether parents or students should borrow to fund a college education depends on each family's individual circumstances.

Federal Student Loans -- Your First Stop

Whether the student or the parent does the borrowing, your first and best option for securing a loan is to go directly to the federal government. Stafford loans designed for students and Parent Loans for Undergraduate Students (PLUS) for parents are the most frequently used federal loans.

The key benefits of Stafford loans include:

- Low, fixed interest rates
- Income-based eligibility (indicated by data filed on the Free Application for Federal Student Aid [FAFSA])
- Repayment deferral until after graduation

Like many borrowing programs, Stafford loans present both benefits and drawbacks. On the upside, they allow borrowers to defer repayment until after graduation. Given the challenging economic climate, the federal government has announced an Income-Based Repayment Plan that caps payments for graduates whose student loan debt is high relative to income and family size. Specific criteria to qualify are available at www.studentaid.ed.gov. The cap was intended as a benefit for graduates who do not earn significant income. On the downside, Stafford loans carry annual borrowing limits that often are not high enough to cover a year of college costs.

What Parents Need to Know

Parents who intend to fill their child's college funding gap via a PLUS loan must undergo a credit check in order to qualify. Those who are deemed creditworthy can borrow up to the full cost of attending college, including the cost of room, board, and books. The interest on a PLUS loan is variable and may change annually. In addition, PLUS loans require parents to begin a repayment schedule immediately.

For students and parents alike, borrowing through the federal education loan program, as well as through private loan issuers, offers tax deductions on interest paid.

Paying for college is a long-term commitment. Determining how to cover the costs should take into consideration a family's current financial needs as well as its short- and longer-term financial goals. Be sure to talk to your financial advisor and tax professional.

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