

Strategic Use of Student Loan Programs

Cozy Wittman
Education & Partnerships
612-850-5729

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College Inside Track

Helping families navigate college search for 15 years!

College is an industry, just like investing, we know the behind the scenes secrets that families won't find!

Right fit is our goal – fewer than 4% of our kids ever need to transfer

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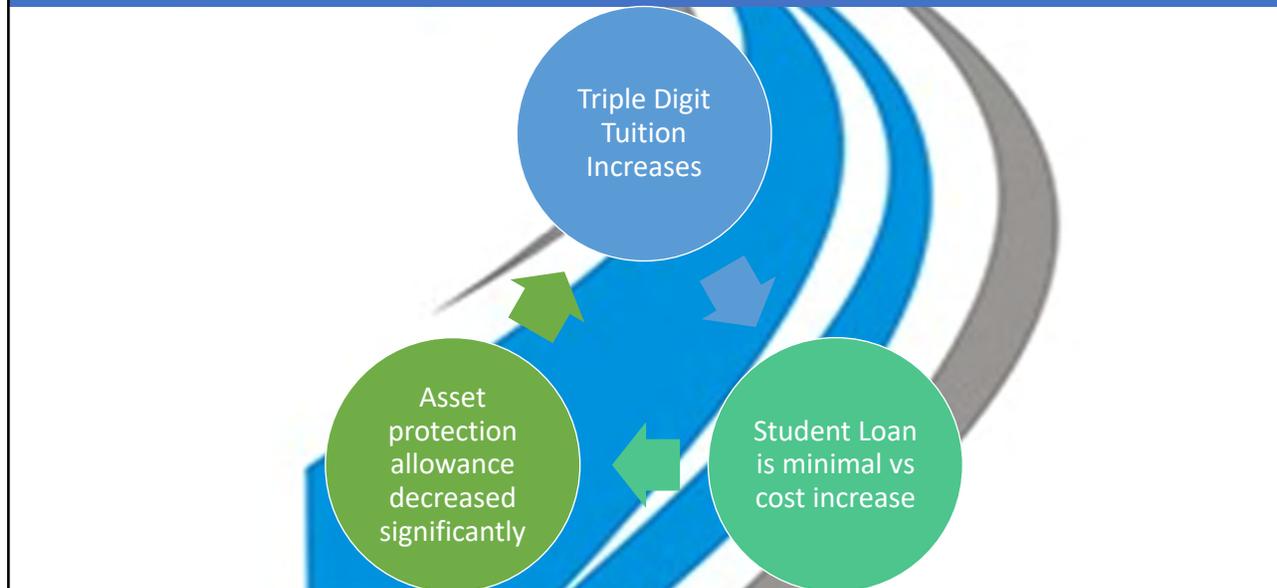
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- Northwestern: \$81,256
- University of Chicago: \$80,277
 - NYU: \$78,774
- Washington University: \$74,788
 - Denver University: \$67,656
 - Rockhurst University: \$39,966
- University of CA-Berkley: \$36,015*
 - University of IL - \$32,814

*in-state tuition rates

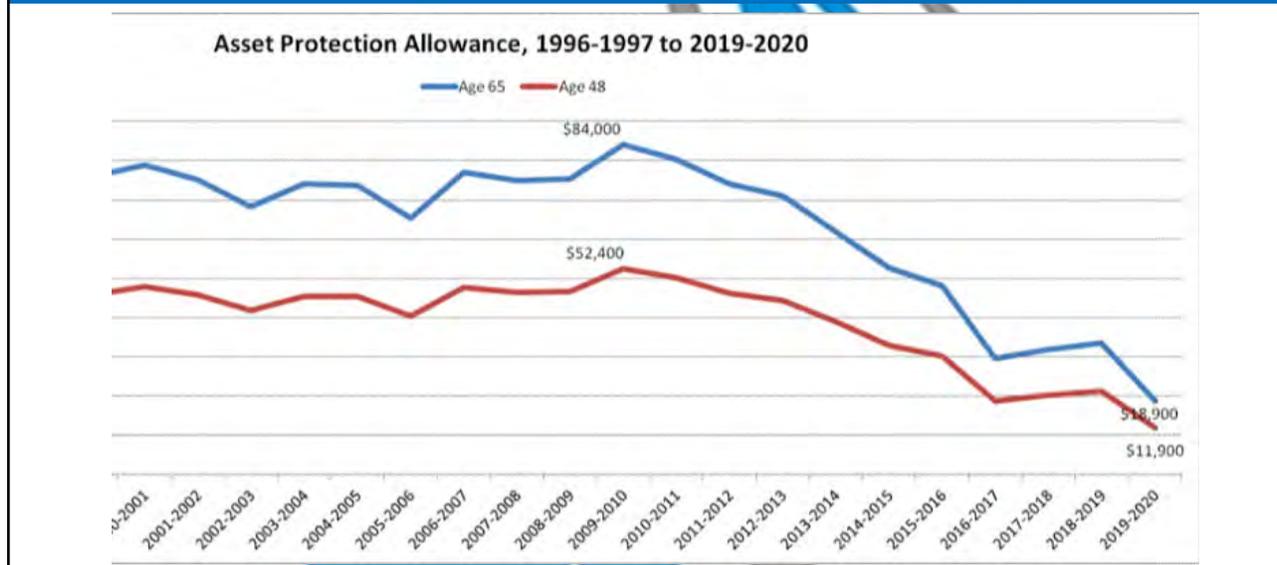
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Why is it harder for families to afford college?

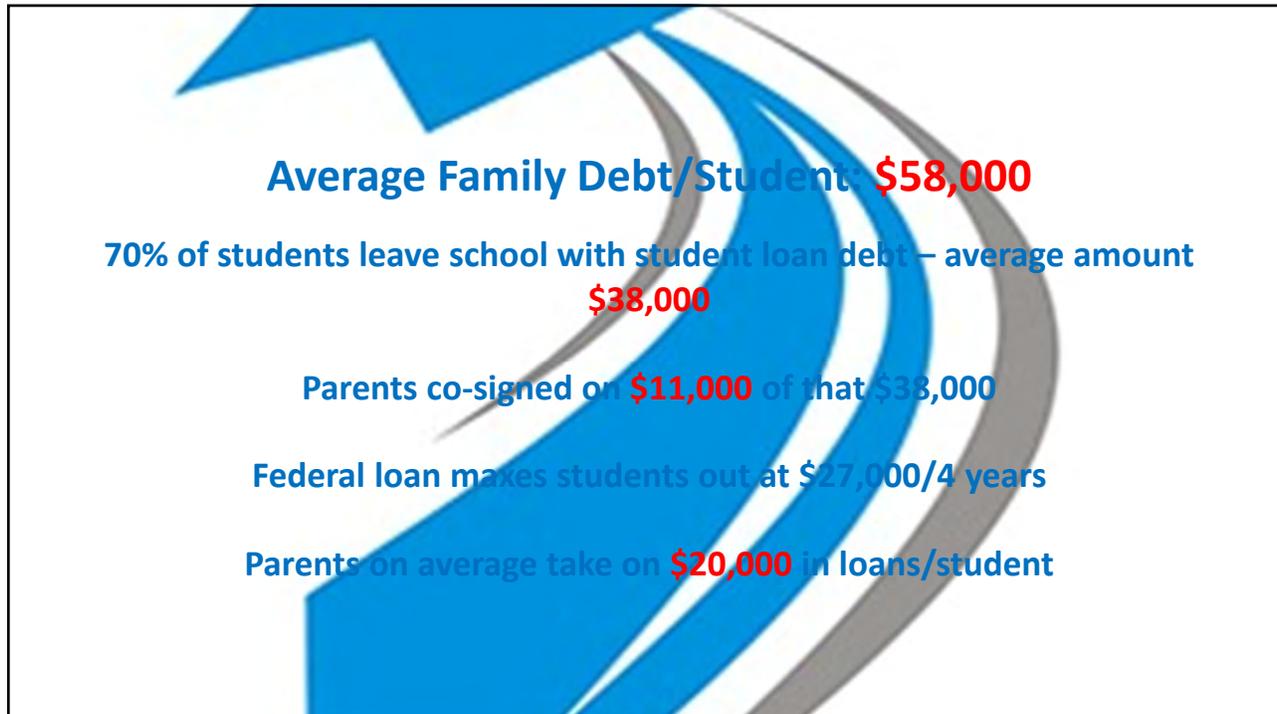


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10 years ago, a family could shelter \$52,400 in assets, today that number is \$11,900



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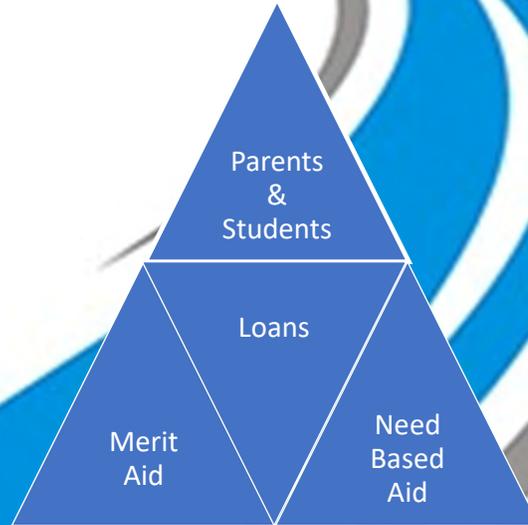
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Determining the Family Strategy

Philosophy and Value – where to start?

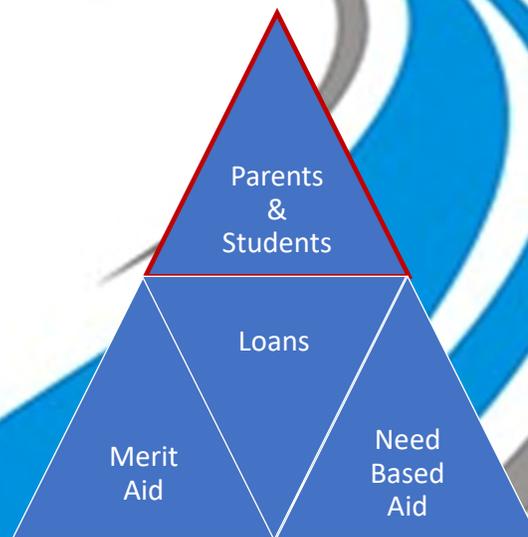
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There are multiple ways to pull a successful financial college experience together!



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Parent and Kid contribution potential



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What is your Philosophy? Who has skin in the game?

- Parents pay for school
- 529 is our contribution – all else is student
- Use some money for grad school too
- Percentage Breakout challenges – 50% of what?
- Student pays

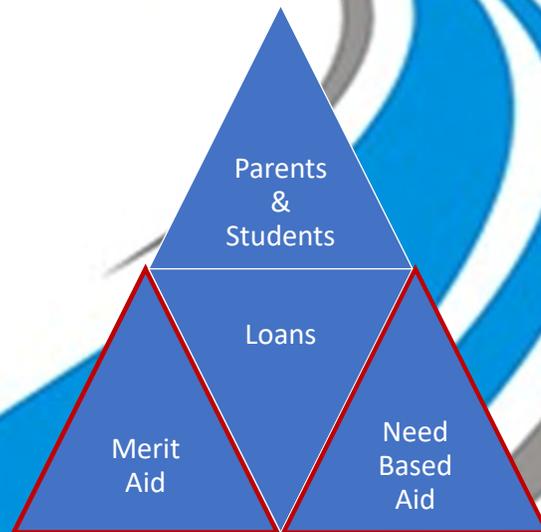
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4 Tips to Take Share with Clients

1. Talk early in the process
2. Make financials equally important
3. Determine skin and what the bottom line is
4. Educate the student on payback, encourage partnership

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How Does “Aid” Factor into the Discussion?



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What is a FAFSA and what on earth does it mean?

- Free Application for Federal Student Aid – FAFSA
- Application for Federal student loans
- Formula determines Expected Family Contribution – Roughly 47% of your net income
- Colleges use the number to determine “Need”
 - sticker price of the college minus the Expected Family Contribution (EFC) = Need

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How does a family's "need" status impact their potential for loans?

- Need changes school to school
- Need gives students access to subsidized student loans through the Federal loan program (Stafford)
- Subsidized portions have limited access so plan accordingly

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An over focusing on "need" means people blind themselves to great options to reduce cost!

KEEP CALM
CHANGE OF PLANS

If a family will not be need based they need to change their strategy and focus on MERIT instead!



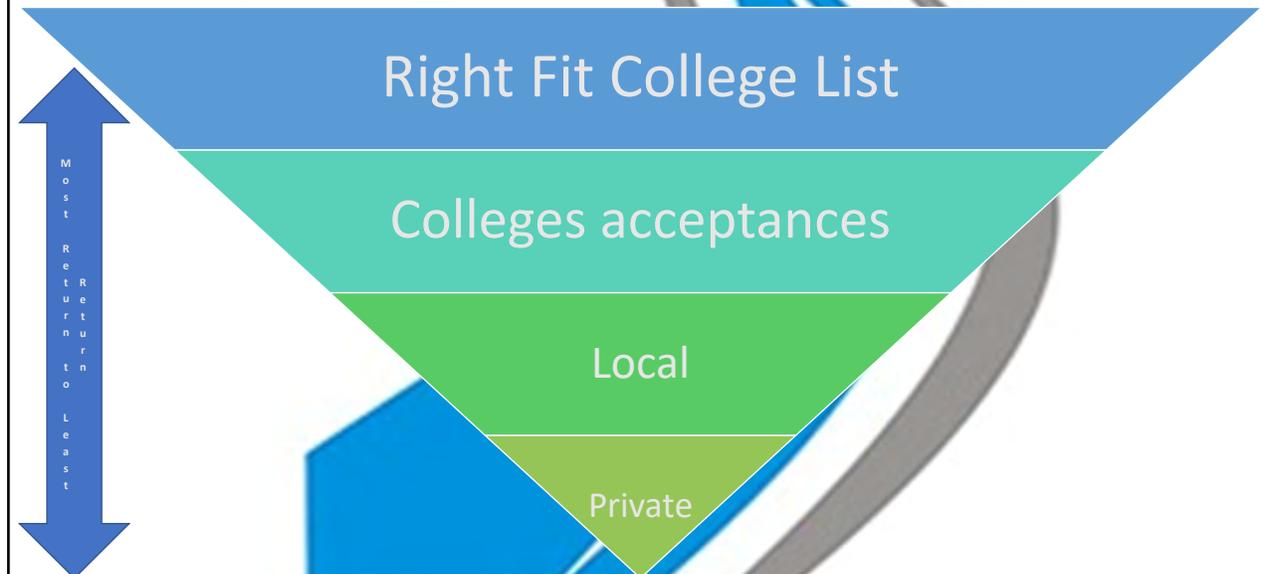
Looking for ways to "reduce" assets doesn't generally work



Assets only account for 5.64% of the formula, income is much, much larger

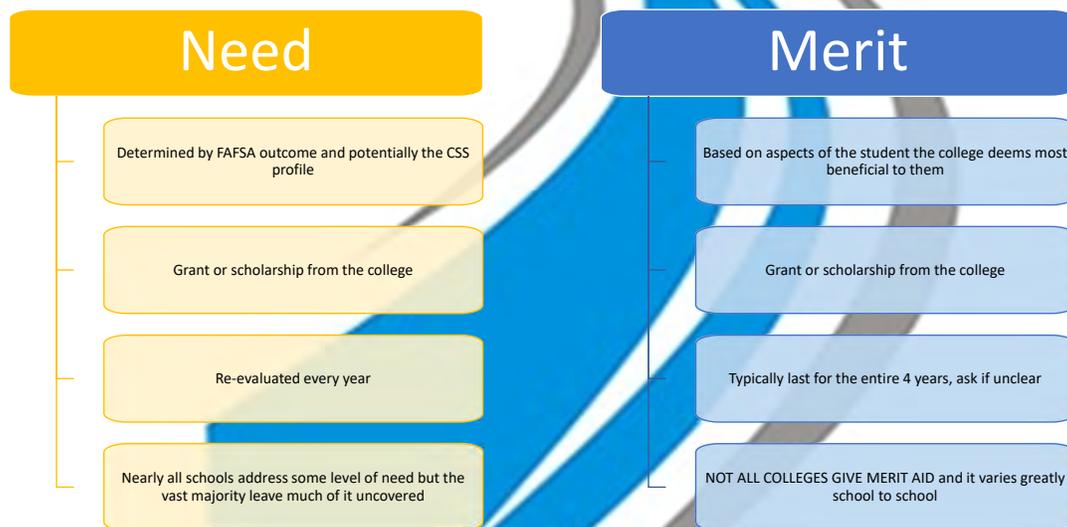
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The best scholarship money goes to the smart searchers!



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Need vs Merit – How do they compare



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Consider schools where the student brings something interesting to the table

- Stronger GPA/ACT/SAT score than the average for colleges of interest
- Skills in activities/sports that the school wants
- Demographics
- Demonstrated Interest

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Loan Considerations!

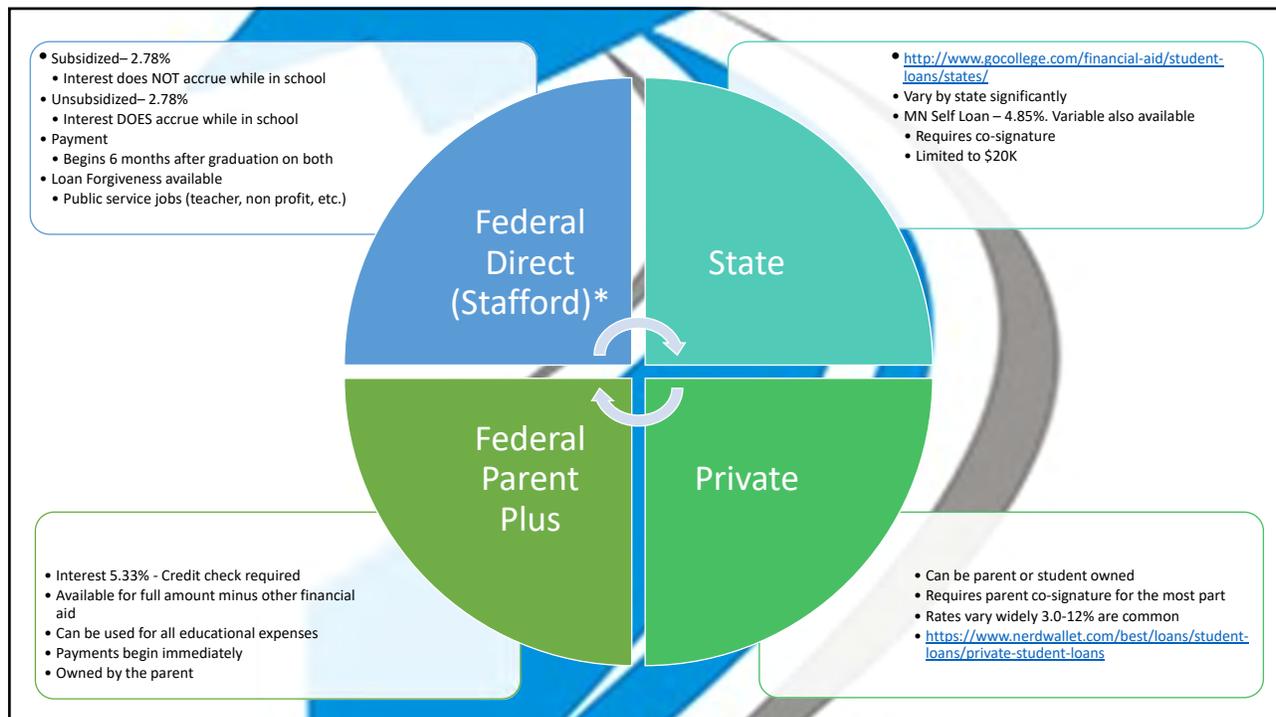
Parents & Students

Loans

Merit Aid

Need Based Aid

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Federal Direct LOAN Limits

Federal Student loan – maximal set amount

- Sometimes called the Stafford Loan
- Only loan owned by the student alone
- Freshman - \$5500 – subsidized max - \$3500
- Sophomore - \$6500 – subsidized max - \$4500
- Junior - \$7500 – subsidized max - \$5500
- Senior - \$7500 - subsidized max - \$5500
- 5th year Senior – up to \$7500 with a Stafford loan max limit of \$31,000

Be very clear of the terms of the loans you take out!
Not all loans are created equally!

- Only accessible in the year they are offered, they cannot be accessed in subsequent years
- Parent Plus vs HELOC

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Guidelines for Debt

- Never take out more in loans than a first year salary in the student's chosen field
- For every \$10,000 in loans taken out, it will be roughly \$100/month loan payment
- There is no ability to pay analysis done, people have to self-regulate
- Co-signing loans has impact on parent's credit history
- Student loans are not dismissed in bankruptcy or for co-signed loans, upon the death of the student
- If fully funding for college – consider taking \$27K and applying for grad school potentially

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Assure your clients have a *strategy* to pay for college

- 4 year plan & a budget
- Discuss early in the search process
- Define expectations

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529's

Use during college is limited to qualified expenses

- Tuition, Room & Board, Books, Fees, Computer, Disability equipment

Plan for all 4 years to maximize the value of the 529

- Consider whether using it now or later is their best option
- Consideration around Federal Student Loan/FAFSA
- With the current interest environment – consider other low interest loans rates are now anticipated at 2.5% or lower!
- Consider saving \$27K for use during grad school
- Scholarship amounts can be pulled out penalty free

New use to help pay down loans!

- \$10K lifetime limit to apply to student loan payment
- May have state tax implications if you live in a state that is non-conforming – check with your tax accountant
- Potential use for grandparent 529

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Other Contributors

Potential Impact on Need based money

- Money that goes to pay for college is reported on the following year's FAFSA as student income – assessed at 50%
- Depending on need status, this could impact grants/scholarships

Parent Money First, Others Second

- If it's possible, wait until after fall of junior year, once FAFSA is completed in Oct
- Money can now be used for the remainder of junior and all of senior year

If student is not need based, money has no impact

- Assure there is a 4 year plan for how to pay for school
- If not in a 529, other contributors may consider helping pay off student loans

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How COVID 19 is impacting the college landscape

- Touring – campuses are closed
- Testing cancelled and evolving
- College Acceptance & Deferral

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Longer Term Ramifications

- **Test Optional Schools**
 - More holistic review of students
 - Essays/demonstrated interest/curriculum rigor
 - Potential to set new standards
- **Some colleges will likely not survive**
 - Shifting volumes of kids may make relatively risk neutral schools riskier
 - Large flagship universities will be increasingly more challenging to get into
 - More high demand schools may become less merit giving as demand increases
 - Opportunities if you will look further away

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What would you recommend?

Scenario #1

Carly (mom) wants her daughter, Megan, to have skin in the game. Her current strategy includes having her daughter pay for year one, Carly will pay for year two and grandparents will cover years three and four.

Megan's school of choice costs about \$26K/year, total cost of attendance. They will not receive need based grants or scholarships, nor merit based grants or scholarships.

Carly is your client; how might you advise her differently?

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What would you recommend?

Scenario #2

Jon and Liz have a 529 with about \$100K in it per child in their family. Their son, Kendal, is planning to attend a school that will cost about \$30K/year.

Their EFC was 058472 and so at this school they will not get need based aid. Their philosophy is that their student should have some skin in the game and Kendal should work summers to contribute.

They want ideas from you on the best way to fill their \$20,000 gap.

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What would you recommend?

Scenario #3

Kyle is a junior, his family makes about \$60K/year. Kyle's college fund had to be drained when times were tight.

Kyle's parents are planning to take out loans or tap retirement to help Kyle pay school. They feel he did his part and *got great merit and need-based scholarships* from his college of choice. They are left with about \$15K/year gap.

Marcia and Gary, his grandparents, have been saving for their grandson and are excited to help. They plan to cover the gap for freshman year for Kyle, so covering the \$15k.

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Questions?



College
INSIDE TRACK

Cozy Wittman
cwittman@collegeinsidetrack.com
 612-850-5729

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