

Student Loans: Responsible Borrowing

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If you are planning to attend college, a trade school or some type of post-secondary training after high school, you will also likely apply to obtain student loans. The challenge is to select loans that match your financial needs, not only when you are a student but also when you are earning an income following graduation.

Student loan debt has generally been considered “good debt” due to a borrower’s increased earning ability upon graduation. However, the amount of outstanding debt should be proportional to a student’s projected earning ability. Check out the following suggestions to keep from falling into student debt traps.

Evaluating Post-Secondary School Options

There are many things to consider as you look at educational opportunities and the decision should not be taken lightly.

Do

- Look at different types of post-secondary school and make sure you fully understand the costs (i.e., tuition and fees, room and board) associated with each one. It’s okay to “shop around” for schools.
- Complete a Free Application for Federal Student Aid (FAFSA). The FAFSA is the gateway to federal student loans.
- Examine and evaluate federal loan options. Federal loans offer lower interest rates than private loans and you may be eligible for loan forgiveness programs.
- Shop around for private loans if you don’t qualify for enough federal student loans. Even a slightly higher interest rate of 0.5% to 1% more can add up over extended repayment periods.

- Examine potential career earnings upon graduation specific to your field of study. Some fields of study do not pay as much upon graduation as other fields. You may struggle to pay loans from an expensive post-secondary institution with a low paying career.
- Get a copy of your free credit report at www.annualcreditreport.com to check for unauthorized action with your personal information. You may not even have a credit report at this time, but checking it will ensure you have not been a victim of identity theft.

Don’t

- Overlook public in-state colleges and training facilities as they often charge lower tuition with degrees matching your career goal and financial budget.
- Select colleges or post-secondary training sites due to a friend’s enrollment. While it is difficult to change social settings in life, it is far worse to study for a degree/certificate in a field you are not truly interested in studying.

Before Signing Loan Documents

Student loans are ultimately your responsibility to repay, so make sure you are paying attention when borrowing.

Do

- Limit borrowing to the amount you need to cover tuition, books and educational supplies.
- Keep a running total of loans accruing from year to year. Only looking at semester or yearly totals may leave you surprised and overwhelmed with the final summary loan total at graduation.

- Keep a folder of all student loan related forms and information brochures. It is not only convenient to be able to find everything in a single folder, but also can be helpful when planning and evaluating repayment options. Some loans require actions to keep loans in deferment/forbearance (no payments required) while remaining as an enrolled student.
- Keep your contact information current with each lender. It is your responsibility to report a change in your address to the lender. A lack of current address is NOT an excuse for missing a loan payment.
- Understand the terms of the agreement in regards to how loan amortization works, how interest will be charged, and if interest will be added to the principal of the loan, commonly referred to as capitalization. Some private loans capitalize more frequently than federal loans.

Don't

- Turn to the signature page and sign without reading all the text of the contract you are signing.
- Use extra funds from the refund check for pizza nights, spring break, drinks with friends or shopping trips. These expenses will cost you more because of interest.

Searching for Jobs and Preparing to Graduate

It is important to consider your student loans as you near graduation and begin looking for your first post-secondary school job.

Do

- Work hard to graduate on time. Extra years at school mean additional student loan costs and lost years of earning.
- Make a spending and saving budget to follow after graduation. Determine potential costs to help guide your financial decisions such as housing. It is important to look at the interest rate of each loan and work to pay off higher interest rate loans first versus small loans with low interest rates to potentially save thousands of dollars in interest costs.

- Visit the [Student Loan Estimator](#) to determine your estimated loan repayment totals.
- Examine and evaluate various repayment plans. Schedule an appointment with your university loan department to determine available options.
- Read all correspondence from loan providers thoroughly before deciding to consolidate loans—some loans are ineligible for loan forgiveness programs once consolidated with non-eligible loans.
- Be cautious when deciding to pay for loan consolidation as many federal programs and some private banks offer free loan consolidation.
- Explore tax credits for student loan interest payments.
- Choose to sign up for automatic draft payments from your bank account. Automatic payments reduce the possibility of late payments and are often rewarded with lower interest rates too.

Don't

- Consider not paying your loans on time. Default on student loans can greatly impact your credit report. Lenders and other businesses use the information in your credit report to evaluate your applications for credit, loans, insurance, employment or renting a home.
- Extend loans to a longer repayment time to simply have a lower monthly payment. Those extra months and years will quickly add additional interest costs beyond the principle.

Resources

U.S. Department of Education Blog

<http://blog.ed.gov/2015/04/5-common-student-loan-mistakes/>

Student Loan Hero

<https://studentloanhero.com/featured/student-loan-mistakes-to-avoid-in-your-20s/>

Edvisors Network

<https://www.edvisors.com/repay-student-loans/managing-student-loans/common-mistakes/>