



COMPARING COLLEGE LOAN OPTIONS

MASSACHUSETTS EDUCATIONAL FINANCING AUTHORITY

Your Presenter Today



Stephanie Wells

- Stephanie joined MEFA in 2001 and has nearly 25 years of experience in the higher education financing industry.
- As Associate Director of College Planning & Education she is responsible for MEFA's College Planning center and customer experience. She also works with colleges, high schools and community based organizations to further MEFA's public mission of educating and supporting families on the college enrollment and financing process.

mefa

About MEFA

- Not-for-profit state authority created in 1982
- Helping families plan, save, and pay for college
- Keeping you on track with college planning:
 - **mefa.org**: Information (blog), tools, & resources
 - **Facebook, Twitter, & LinkedIn**
 - **Emails**: Sign up on mefa.org
 - **Seminars**: Details at mefa.org/events
 - **Webinars**: Register at mefa.org/events

mefa

3

To Begin

Understand Loan Terminology

mefa

Interest Rate

- Understand the difference between fixed vs. variable
 - **Fixed interest rate:** monthly payment will remain the same
 - **Variable interest rate:** monthly payment will adjust with the market
- Find out if there is a cap on variable interest rates
- Are the lender's interest rates listed right up front?
- The interest rate may be tied to your chosen repayment option



mefa

Annual Percentage Rate (APR)

- Total cost of the loan, including fees, repayment term, etc.
- Quick way to compare loans



mefa

Repayment Term

- Specifies the length of time to repay the loan
- Has a direct impact on the total cost
- Provides flexibility as families consider their monthly budget
- Most lenders offer different repayment terms to choose from



mefa

Tiered Pricing

- The advertised interest rate may not be the rate you receive!
- Used by some lenders
- Interest rate is based on credit score and credit criteria
- Pricing is based on credit risk to the lender
- It's best if you know the interest rate **before** you apply



mefa

Application and Solicitation Disclosures



- Statements explaining the cost of a lender's loan
- Required for private lenders such as [MEFA](#)
- Can be found on lender websites and loan comparison tools
- Things to look for:
 - Are the disclosures easy to find online?
 - What are the interest rates?
 - What are the fees?
 - What will be the total cost?

mefa

1. Borrow Federal Student Loans First

- Submit the FAFSA to receive federal student loans
- Student is the only borrower
- No credit check
- Annual limits: \$5,500 for freshmen
- The fixed interest rate changes annually: 5.04% for 2018-19
- Two types:
 - **Subsidized:** Interest accrues after graduation
 - **Unsubsidized:** Interest accrues immediately
- A 1.066% fee is deducted from the loan amount
- Loans require two one-time actions by the student:
 - Sign the Master Promissory Note
 - Complete Entrance Counseling
- No payments are due while the student is in school
- Federal loans have several repayment options

mefa

2. Minimize Borrowing: Utilize Savings & Present Income

| | Balance Due | \$20,000 |
|--|-------------|-----------|
| Past Income (Savings) | | |
| Student Savings | | -\$1,000 |
| Parent Savings | | -\$4,000 |
| Present Income (Current Wages) | | |
| Parent Contribution to Payment Plan | | -\$5,000 |
| Future Income (Education Loans) | | |
| Education Loan | | -\$10,000 |
| | | \$0 |

You may borrow an education loan up to the school's cost of attendance minus any financial aid received.
But only borrow what you need!

mefa

3. Understand How Loans Work

- You may borrow a loan amount up to the school's cost of attendance minus any financial aid received
- But only borrow what you need!
- Apply for loans one year at a time
- Apply for the loan amount needed for the entire year
- The school will split the loan to pay for the fall and spring semesters
- Loan funds will go directly to the college



mefa

4. Assess Loan Affordability

Loan Payment Calculator

Use our Loan Payment Calculator to determine your total cost and monthly payment on an undergraduate MEFA loan. To minimize borrowing, we also recommend that you consider using your college's interest-free monthly payment plan to pay for a portion of your college costs. Talk to your college financial aid office for further details.

Amount to finance per year: Years before graduation:

| | Immediate Repayment 10 Years | Immediate Repayment 15 Years | Interest-Only Repayment 15 Years | Deferred Repayment 10 Years | Student-Deferred 100% Co-Financing Repayment 10 Years |
|---|------------------------------|------------------------------|----------------------------------|-----------------------------|---|
| ANNUAL PAYMENTS | \$10,000.00 For 48 months | \$6,666.67 For 60 months | \$5,555.56 For 60 months | \$0.00 For 60 months | \$0.00 For 60 months |
| TOTAL COLLEGE PAYMENTS | \$480,000.00 | \$399,999.99 | \$333,333.33 | \$0.00 | \$0.00 |
| TOTAL COST OF LOAN | \$980,000.00 | \$899,999.99 | \$833,333.33 | \$0.00 | \$0.00 |
| APR | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| APR WITH DEFERRED INTEREST | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| APR WITH DEFERRED INTEREST AND CO-FINANCING | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| APR WITH DEFERRED INTEREST AND CO-FINANCING (with 100% co-financing) | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| APR WITH DEFERRED INTEREST AND CO-FINANCING (with 100% co-financing) (with 100% co-financing) | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |

- Access the Loan Payment Calculator on mefa.org to learn your loan cost
- Print your plan and call MEFA at (800) 449-MEFA (6332) to discuss.

mefa

5. Get Advice from Trusted Resources

- Ask questions of lenders
- Look for transparency
- Utilize free resources
- Work with the college financial aid and student accounting offices
 - Lender lists on college websites
- Talk to MEFA



mefa

MEFA and PLUS Loan Comparison

| | MEFA Loan | Direct PLUS Loan |
|---------------------------------|--|---|
| Interest rate | Starting at 4.69% fixed (current rates as of 6/5/2018) | 7.59% fixed for 2018-19 |
| Fee | 4% origination fee | 4.264% origination fee |
| Student on the loan? | Yes | No |
| Responsibility to repay | Student & co-borrower(s) | Parent |
| Transfer responsibility? | Student Deferred option | No |
| Credit criteria | Minimum credit score | Minimal standards |
| Repayment term | 10-15 years | 10-25 years |
| Repayment options | Immediate, interest-only, deferred | Immediate or deferred |
| Enrollment status | At least half time | At least half time |
| Consumer safeguards | Student death & disability loan forgiveness | Parent or student death & disability loan forgiveness |
| Need to file the FAFSA? | No | Yes |

mefa

6. Timing: Paying Your Bill

- Bills for the fall semester sent in June/July, due in July/August
 - Includes direct costs only (tuition, fees, dorm, meal plans & other direct costs)
 - May include health insurance charge, which you can waive if already covered
 - Enrollment deposit, private scholarships, and financial aid will be deducted
 - If you set up a payment plan and/or loans you may see these credited amounts
- Work-study is not deducted from the bill
- Apply for a MEFA Loan or other loan 2 weeks before the billing due date
- You may apply for a loan if needed anytime during the academic year
- Set up payment plans according to the school's schedule

mefa

Questions?

Contact us:

Stephanie Wells,
Associate Director of
College Planning & Education

MEFA
info@mefa.org
(800) 449-MEFA (6332)
mefa.org/loans

MEFA is your trusted advisor,
helping to make your family's college goals a reality.



mefa
