Comparing College Loan Options

About MEFA
Not-for-profit state authority created in 1982 helping families plan, save, and pay for college

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Your Presenter Today

Meredith Barnhart
• Joined MEFA in 2012
• 15 years experience in college financing
• Director of Integrated Communications
Understand Loan Terminology

**Interest Rate**
- The percentage of the amount borrowed that the lender charges for the use of its money
- 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
- Most interest rates are tied to the strength of your credit
- The interest rate may be tied to your chosen repayment option

**Annual Percentage Rate (APR)**
- Total cost of the loan, including fees, repayment term, etc.
- Quick way to compare loans
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

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:

- What are the interest rates?
- What are the fees?
- What will be the total cost?

Examples

<table>
<thead>
<tr>
<th>Lender</th>
<th>Interest Rate</th>
<th>Fees</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>5.5%</td>
<td>1%</td>
<td>$5,000</td>
</tr>
<tr>
<td>B</td>
<td>6.0%</td>
<td>1.5%</td>
<td>$5,500</td>
</tr>
<tr>
<td>C</td>
<td>6.5%</td>
<td>2%</td>
<td>$6,000</td>
</tr>
<tr>
<td>D</td>
<td>7.0%</td>
<td>2.5%</td>
<td>$6,500</td>
</tr>
</tbody>
</table>
Co-Borrower(s)

- Signs the loan agreement along with the student borrower
- Has equal responsibility on the loan agreement
- Adding one (or two) may increase chances for approval
- Those with good credit may help decrease the interest rate
- Some loans have co-borrower release options

Be A Wise Borrower

1. Borrow Federal Direct Student Loans First

- Student is the borrower – no credit check
- Fixed interest rate changes annually: 4.529% for 2019-20
- Two types:
  - Subsidized: Interest accrues after student leaves school
  - Unsubsidized: Interest accrues immediately
- 1.062% fee deducted from loan amount
- Master Promissory Note & Entrance Counseling: StudentLoans.gov
- No payments while in school and several repayment options
2. **Minimize Borrowing: Utilize Savings & Present Income**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance Due</td>
<td>$20,000</td>
</tr>
<tr>
<td>Debt Income (Savings)</td>
<td></td>
</tr>
<tr>
<td>Student Savings</td>
<td>-$1,000</td>
</tr>
<tr>
<td>Parent Savings</td>
<td>-$4,000</td>
</tr>
<tr>
<td>Present Income (Parent Income)</td>
<td></td>
</tr>
<tr>
<td>Parent Contribution to Payment</td>
<td>-$5,000</td>
</tr>
<tr>
<td>Future Income (Borrowing)</td>
<td></td>
</tr>
<tr>
<td>Education Loan</td>
<td>-$10,000</td>
</tr>
<tr>
<td></td>
<td>$0</td>
</tr>
</tbody>
</table>

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.

4. **Assess Loan Affordability**

- Loan Payment Calculator
  - [mefa.org/loan-payment-calculator](http://mefa.org/loan-payment-calculator)
5. Get Advice from Trusted Resources

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

MEFA and PLUS Loan Comparison

<table>
<thead>
<tr>
<th></th>
<th>MEFA Loan</th>
<th>Direct PLUS Loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>Starting at 5.95% fixed</td>
<td>7.079% fixed for 2019-20</td>
</tr>
<tr>
<td>APR</td>
<td>3.95 – 7.30%</td>
<td>7.079% fixed</td>
</tr>
<tr>
<td>Fee</td>
<td>No origination fee</td>
<td>4.248% origination fee</td>
</tr>
<tr>
<td>Student on the loan?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Responsibility to repay</td>
<td>Student &amp; co-borrower(s)</td>
<td>Parent</td>
</tr>
<tr>
<td>Transfer responsibility?</td>
<td>Co-borrower release option</td>
<td>No</td>
</tr>
<tr>
<td>Credit criteria</td>
<td>Minimal credit standards</td>
<td>Not disclosed</td>
</tr>
<tr>
<td>Repayment term</td>
<td>50-15 years</td>
<td>10-25 years</td>
</tr>
<tr>
<td>Repayment options</td>
<td>Immediate, interest-only, deferred</td>
<td>Immediate or deferred</td>
</tr>
<tr>
<td>Enrollment status</td>
<td>At least half time</td>
<td>At least half time</td>
</tr>
<tr>
<td>Consumer safeguards</td>
<td>Student death &amp; disability loan forgiveness</td>
<td>Parent or student death &amp; disability loan forgiveness</td>
</tr>
<tr>
<td>Need for the FAFSA?</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

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
Questions?

(800) 449-MEFA (6332)

collegeplanning@mefa.org