PAYING *student loans* OFF EARLY

A LESSON IN STUDENT DEBT FOR YOUNG ADULTS IN COLLEGE

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COMPLETE WITH STORIES, QUIZZES AND RESOURCES

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TABLE OF CONTENTS

ARTICLES

3. Should You Pay Student Debt Off in College?
6. Should You Pay Off Your Students Loans Early?
9. 8 Simple Ways To Crush Your Student Loan Debt

QUIZ

13. Saving For College

RESOURCES

14. Info For Students Applying to College
20. Info For Currently Enrolled Students
22. Student Loan Consolidation

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6 Second TAKE Some do it the hard way – working every extra hour outside of the classroom and eating ramen every day to put the money toward repayment. But is it worth the grief?

Should You Pay Off Your Student Loans During College?

MICHELLE ARGENTO
May 1, 2017

At the end of my junior year of college, I had a major realization: in a little more than 365 days, I would be responsible for paying off my student loans.

To be honest, I'd mostly forgotten that I had taken them out. Sure, I had to sign the paperwork every year and help my mom with the FAFSA application. But aside from that, those loans didn't come up in my mind even as I racked up nearly $25,000-worth of them over four years.

Reality hit me hard when an alumna friend mentioned to me that she received her first bill in the mail. The amount due shocked me. And as I thought through a future budget on a teacher's salary, well… Quite frankly, I felt freaked out.

> *Here's something you may not know – your loans are only growing, even if you don't take another out.*

Unless you have a federal Direct Subsidized Stafford Loan, your loans accrue interest each month that passes. Even if your interest rate is low, that's a lot of money adding up while you're in class or pulling all-nighters.

For me, that totaled up to thousands. Paying off my student loans while I was still enrolled would have kept these costs low. And in the long run, it would've reduced the bill that came my way when I graduated. Especially because, like most graduates, I didn't automatically land my high-paying dream job.

In fact, I spent most of that first year out continuing to eat Ramen while working second – and even third – jobs to cover my student loan bills, on top of other new bills, like rent and utilities for my small studio apartment.

> *Paying off part of your student loans while you're still learning does make money sense. But there are a few cons to consider, too.*

First and foremost, it may not be in your best academic interest to focus on paying it down. I knew several students who tried to avoid taking out loans by working two or three jobs while going to school full-time. Unfortunately, for two of those students, it resulted in them leaving the college altogether because of the stress – not to mention the strain on their time.

Outside of the ability to make money, there are a few more things you could do with any extra money you have coming in. For one, if you have credit card debt of any kind, take care of that. The interest rate on that is likely far above what you're paying on student loans; and credit cards are less forgiving should you find yourself unemployed or in grad school.

Also, you may want to use college to start building a savings nest egg. One of the most important things you can do is to put aside some money for an emergency fund.

But if you decide that you do want to pay off your student loan debt while in college and just don't have the funds, there are options out there for you.

For one, you can set up a system with your student loan provider to only pay the interest accumulated during college. You'll get a small bill each month, which you can take care of if you cut your Starbucks trips for a week. Those small amounts add up quickly and stop the interest dam from building up while you're in school.

> *Another idea? Don't borrow everything you can borrow. Just because you receive a substantial loan doesn't mean you need to take it all.*

Instead, decide how much tuition you can cover out-of-pocket (say $1,000). Then ask for that amount to be canceled or returned to your lender.

The same goes with returning any refund checks you may receive from your college for overpayments on your tuition. Use that check to pay off your student loans as soon as you deposit it. That way, you won't feel tempted to spend it on something else.

Even cancelling or paying off a small amount early can go a long way toward keeping your future debt manageable.

If you decide to pay on your student loans during college but are low on funds:

1. Make arrangements with the loan servicer to only pay the interest accumulated during college.
2. Return any loan proceeds that exceed the amount of your outstanding tuition bill.
3. Apply financial aid refunds to your outstanding student loan balances.

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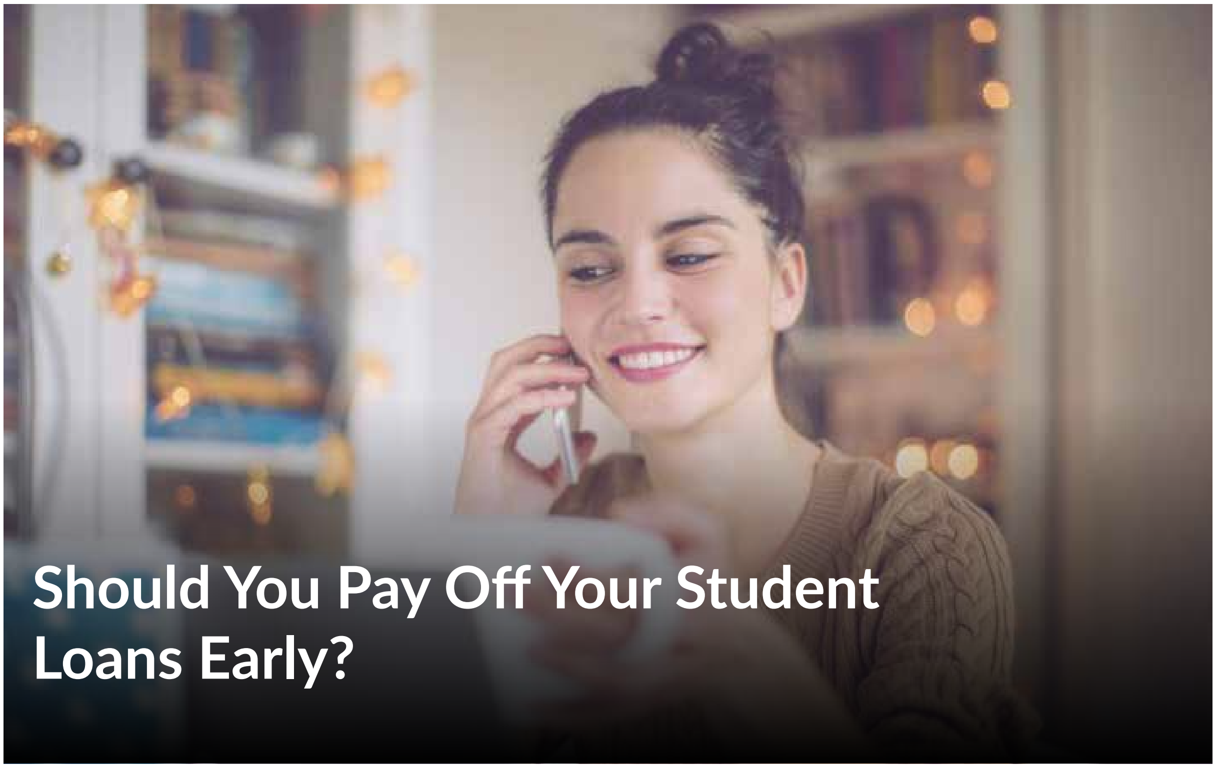
6 Second TAKE There are arguments to be made “for” and “against” it, depending on your unique situation.



Should You Pay Off Your Student Loans Early?

KAYLA SLOAN
January 27, 2017

Understandably, student loans get a lot of hate from millennials who are eager to pay off their loan balances. And yet, student loan balances in the United States reached $1.2 trillion at the end of 2015.

Those who are hell-bent on paying off their student loans as quickly as possible are making sacrifices left and right to spend less, earn more, and hustle their debt away. They’ve seen how student loan debt can be a burden and a roadblock when trying to pursue their dreams.

But should these young people really be in such a hurry to pay off their student loan debt early?

> *Student loan debt has a silver lining – the interest you pay is tax-deductible.*

According to the IRS, the student loan interest deduction can reduce the amount of your income subject to tax by up to $2,500. But like anything else, the subject isn't cut and dry. (To learn more about refinancing your student loans, consider SoFi.)

In an effort to help you decide if student loan interest deduction is worth not paying off your student loans early, we talked to Eric Nisall, a tax accountant and founder of AccountLancer.

"The general purpose of the deduction was to increase access to education and to help with the debt servicing after graduation," Nisall said.

> *"As a beneficial tax deduction, i think it sucks!"*

Nisall pointed out that there are a few flaws with the deduction, like the fact that it is phased out for filers with an adjusted gross income (AGI) of $65,000, and the benefit goes away entirely if your AGI is over $80,000.

Of course, the AGI limit is higher for those who are married filing jointly, but the deduction is still limited to $2,500, even if both spouses are paying back on qualified student loans.

According to Nisall, the "sweet spot" for filers to take full advantage of the deduction is for those single or head-of-household filers with an AGI of less than $65,000. Even then, Nisall said that the tax savings would only be between $625 and $700 based on filing status.

"It's important to remember that this is a deduction not a credit, meaning that you are only reducing the taxable income by the interest amount, not reducing the actual tax dollar-for-dollar," Nisall said.

So from a tax point of view, it doesn't make much sense to stretch out your repayment schedule. But are there other reasons to consider?

Consider Your Quality of Life
Sure, I'm willing to make some sacrifices to pay more toward my debt, but not at the expense of my overall health and happiness.

Before you throw every penny you earn toward your student loans, make sure that you are satisfied with other things in your life.

> *Getting out of debt is important, but so is taking care of your basic needs.*

Take Stock Of Your Finances
Another obvious thing to consider is the rest of your financial situation. If you have no money in savings and a maxed-out credit card, your student loans should not be at the top of your list of financial goals.

Most financial experts agree that having a small emergency fund before tackling debt head-on is the key to long-term financial success.

Next, you should look at the overall picture of your debt. If you have other debt besides your student loans that costs you more in interest, then that should be your primary focus.

Once you get down to only having student loans and other low-interest debt, the decision of how aggressive you want to be with your debt becomes more complicated.

If your interest rates are low enough, it might actually be a better idea to save and invest instead of paying your debt off early.

"There are people who have no problem having low-cost debt if that frees them up to use their cash to earn more than the loans cost," Nisall said.

> *Instead of putting extra money toward your debt only to risk being faced with a financial emergency that you can't afford the very next day, focus on building up a small savings fund first.*

In the end, the decision of whether or not you should pay your student loans off early is up to you. The answer will be different for everyone, as no two situations are the same.

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6 Second TAKE It's finally time to pay back your student loan debt. But how do you get started when it seems overwhelming?

8 Simple Ways To Crush Your Student Loan Debt

MELANIE LOCKERT
October 30, 2016

You graduated college and your grace period is up. It's time to pay back those pesky student loans. Student loan debt has become a way of life for many of us.

After seeing your total balance, you may be overcome with shock – maybe even a little panic. "How will I ever pay this back?" you think.

I've been there. Just a few years ago, that was me. I could hardly believe how much debt I was in and how much interest was tacked on to my loans. I felt paralyzed by debt, and didn't know how to move forward.

At the time, I had $68,000 in student loans with no full-time job in sight.

> *While my situation was less than ideal, I knew that I wanted my loans gone yesterday.*

I knew that getting out of debt was really important to me because I wanted the freedom to travel and experience everything life has to offer. Currently, high student debt levels are leading to delayed marriages, homeownership, and even delayed retirement. I didn't want that to be me.

Now after several years of hustling, last year I finally paid off my debt. It felt surreal. It's not an easy process, nor is there a magic pill that can help it all go away. But there are ways you can speed things up and become debt-free. Here are seven steps you can take to pay off debt quickly.

1. Pay More Than The Minimum

If you really want to get out of debt fast, it's imperative that you pay more than the minimum. Minimum payments are just that — the minimum. Look at your income and expenses and see how much you can afford to put towards debt each month. Even an extra $50 can help. The key is to pay more than the minimum, possibly doubling your payments if you can.

2. Sign Up For Auto Pay

Most student loan servicers offer a 0.25 percent reduction in interest for borrowers who sign up for auto-pay. Accruing interest on your loans quickly tacks more money onto your balance, making it tough to pay off.

> *Any reduction in interest can save you money in the long run, so your payments can go to the principal balance and not just interest.*

3. Make Biweekly Payments

Instead of making monthly payments on your debt, make biweekly payments instead. You don't even have to pay more – just divide your monthly payment in half and make biweekly payments. You will pay less in interest over time and effortlessly make an extra payment. How? When you make monthly payments, you'll make 12 total payments. By making biweekly payments, you'll make 26 half-payments, which equates to 13 total payments.

4. Throw All Extra Cash At Debt

If you really want to get out of debt as soon as possible, commit all extra funds to debt. Did you get a hefty tax refund? Birthday money? Any time you get "extra" money — such as a tax refund, birthday money, or an inheritance — use it to reduce your debt. After all, the "extra" money won't affect your budget, so before you have too much time to think about how you'll spend it, apply it toward your debt instead.

5. Consider Refinancing

Depending on the type of student loans you have, as well as your interest rate, refinancing your loans could save you thousands of dollars. There are many refinancing companies out there that can refinance both federal and private loans, offering you a better interest rate. Through refinancing, you pay less in interest, so you can attack the rest of the principal.

Borrowers looking to refinance will need to have a good credit score, which helps lenders assess your credit worthiness. To improve your credit score, it's important to make on-time payments for all your bills. In addition, keep your credit use to a minimum, as the closer you get to your credit limit, the more likely you are to be considered a risk to lenders.

> *Refinancing can save you a lot of money, but it's important to do your research to see if it's right for you.*

It's important to note that all refinancing companies are different and will offer a different interest rate based on a variety of factors. In addition, you will be giving up federal protections such as forgiveness or income-based repayment through refinancing.

6. Go On A Spending Diet

When you are committed to paying off debt, all of your expenses need to be re-evaluated. Ask yourself:

- Do I need this?
- Can I find it cheaper?
- Does this offer value in my life?

I'm a firm believer that you have to have some fun even while paying off debt, so consider going on a Spending Diet, which allows $100 per month for non-needs spending. This free program, created by Anna Newell Jones has helped people keep their spending in check while focusing on paying off debt.

By capping your nonessential spending at $100, you become more aware of your purchases and free up more money to pay off debt.

7. Make More Money
Make more money. This option can often be more fun and empowering than the others. To make more money, look on sites like Craigslist, TaskRabbit, Uber, and more to put your skills to use. Seek other opportunities where you can make extra income that can go straight into your repayment plan.

> *Cutting back is a key component to paying off debt. But what happens when you can't cut back anymore?*

8. Start Today
I knew that student loan debt was holding me back from my goals, so I took action. Personally, I hate debt, so I'm singularly focused on getting rid of it. I think that it's possible for borrowers to pursue other goals like home ownership or starting a family while they're still in debt.

However, debt can limit both your dreams and your opportunities, so work to eliminate your student loans in 10 years or less. The good new is that using these tips can help you pay off your loans and start saving for your financial future.

It's getting in the right mindset and starting to make little changes every day that will have a big impact on your debt so that you can live the life of your dreams – debt-free.

1. A scholarship program is probably a scam if...

- [ ] You must provide a bank account number to secure the funds.
- [ ] The administrator promises to do all the legwork for a hefty fee.
- [ ] There is an application fee to apply.
- [ ] All of these are indicators.

2. What's the name of the loan that the federal government offers to parents to help offset the costs of higher education?

- [ ] Parent Direct Loan
- [ ] Federal Perkins Parent Loan
- [ ] Federal Direct PLUS Loan
- [ ] Federal Parent Loan

To take the entire quiz, click here >>
https://centsaieducation.com/student-loan-quizzes/saving-for-college/

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Resources to Help Solidify the Lesson

You've tested yourself and digested the key concepts of this quickie lesson, and now reinforcements have arrived. Here are some helpful resources.

What Is The Universal College Application, And When Do I Need To Complete It?

The Universal College Application allows students to apply to any of the 46 higher education institutions in the United States that participate. Some schools may require completion of their own application materials in addition to the Universal College Application.

The application itself is comprised of five pages that must be completed online by the student in order to submit the application. A final page allows students to choose the college or colleges to which they want to apply.

In addition to the application itself, students may be required to submit other documents such as SAT or ACT scores, school reports, recommendations, and other school-related information. Students pay the same application fees that would otherwise be required by the participating school. The application fees are paid directly to the schools, and there is no extra charge to apply using the universal college application.

You might feel overwhelmed by the number of colleges and universities and paralyzed by how to make the right choice. Check out this video that gives you some guidelines of what to consider.

What Types Of Financial Assistance Are Available?

In general, there are four types of financial assistance available for higher education costs. They are:

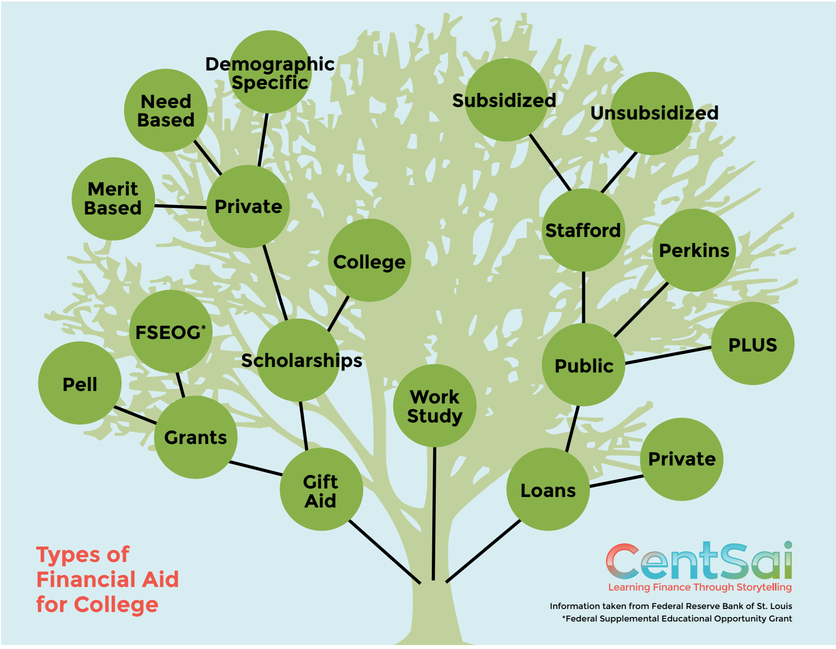
- Scholarships
- Grants
- Loans
- Work-study

Scholarships are comprised of money you are given based on qualifications such as financial need or academic merit. You do not usually have to pay back the money you receive, though some scholarships and grants may require you to maintain a certain grade point average or remain in a particular field of study in order to continue to receive funds. Grants are funds awarded on the basis of need and generally do not have to be repaid. There are four types of federal student grants:

Federal Pell Grants and Federal Supplemental Educational Opportunity Grants are need-based grants awarded to undergraduate students.

Teacher Education Assistance for College and Higher Education Grants are awarded to students who intend to teach in a elementary or secondary school that serves students from low-income families. If the service requirement is not fulfilled, it could turn into a loan.

Iraq and Afghanistan Service Grants are awarded to students whose parents or guardians were members of the Armed Forces and died as a result of performing military service in Iraq or Afghanistan after Sept. 11, 2001. To qualify, a student must have been under 24 years of age or enrolled in college at the time of the parent or guardian's death.



There are a variety of state-funded grants for minorities, disadvantaged students, those pursuing high-need fields of study, students with disabilities, and certain former members of the military.

Loans consist of money you borrow from either the government or a private lender. You are required to pay back the money you borrow, and the terms depend on the type of loan. When you take out a loan, you are charged interest, and often other fees, as well.

Work-Study is a program through your school that allows you to earn money during the school year while also gaining work experience, typically in part-time jobs.

Is your head swimming with all these options? Check out this useful financial aid tree on this video.

Do I Need To Have A Job In Order To Get A Student Loan?

Most federal student loans are not based on your income or credit score. You do not need to have a job or any employment history to take out a federal student loan on your own behalf.

The only exception is for Direct PLUS Loans. These are loans that are taken out by graduate or professional degree students and parents of dependent undergraduate students. One of the eligibility requirements for a Direct PLUS Loan is having a good credit score. Though this doesn't necessarily mean that the borrower must have a job in order to qualify, it's more likely that you are able to pay your existing bills on time if you have a job.

How Do I Apply For Federal Student Loans, And When Do I Need To Apply?

In order to apply for federal student aid, you must complete the Free Application for Federal Student Aid, or FAFSA, form. There is no charge to fill out a FAFSA, and it is used to not only apply for federal student loans but is also used by many states and colleges to determine your eligibility for state and school aid. Some private student loan companies may also use the information in your FAFSA as part of their application process.

The FAFSA form becomes available each year on October 1, and deadlines for submission vary based on the program. For Federal student aid, you can apply between October 1 and June 30 of the school year; for the 2017 – '18 year, for example, you can apply between October 1, 2016 and June 30, 2017.

FAFSA 101

For state-based student aid, you can find relevant deadlines at fafsa.gov. Similarly, college or career school aid deadlines can be determined by contacting the financial aid office of the school or by checking the school's website.

Some other programs may also require that you file the FAFSA. Pell Grant eligibility and various private scholarships are determined only by your FAFSA. Therefore, it's a good idea to complete your application as soon as is possible after it becomes available in January.

Watch this helpful FAFSA 101 Video

How Much Can I Get In Federal Student Loans Each Year?

Your maximum eligibility for Federal student loans depends on your year in college and whether you are listed as a dependent on anyone else's federal tax return.

For first-year undergraduate students who were classified as dependents, the maximum direct loan you can take out is $5,500; no more than $3,500 of that amount may be in subsidized direct loans. Second-year undergraduates qualify for up to $6,500 in direct loans, of which no more than $4,500 may be in subsidized loans. Students in their third year and beyond qualify for up to $7,500 in direct loans, of which no more than $5,500 may be subsidized. For dependent undergraduates, the aggregate direct loan limit is $31,000.

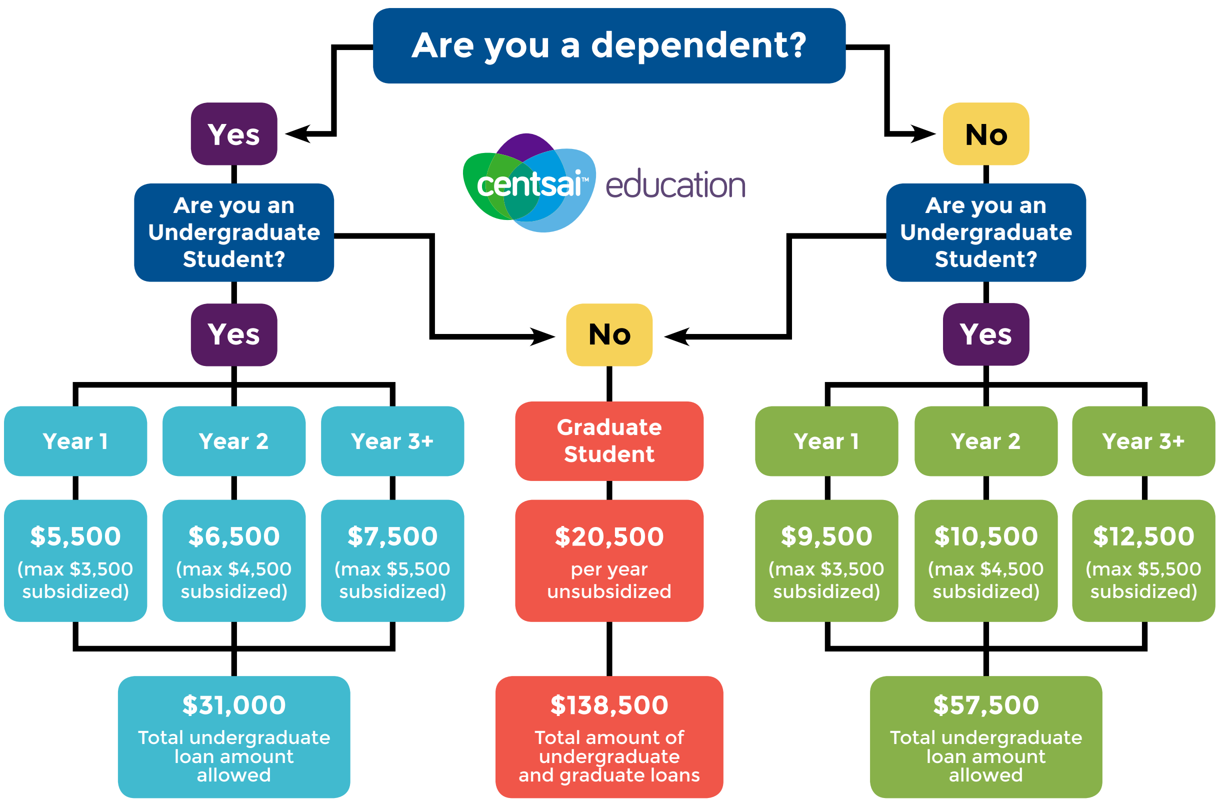
If you are a dependent student whose parents were ineligible for a Direct PLUS Loan, you may be able to borrow up to the limit permitted by independent students.

For first-year undergraduate students who are not classified as dependents, the maximum direct loan you can take out is $9,500, and no more than $3,500 of that amount may be in subsidized direct loans. Second-year undergraduates qualify for up to $10,500 in direct loans, of which no more than $4,500 may be in subsidized loans. Students in their third year and beyond qualify for up to $12,500 in direct loans, of which no more than $5,500 may be subsidized. For independent undergraduates, the aggregate direct loan limit is $57,500.

Graduate and professional students can take up to $20,500 in direct loans per year, all of which is unsubsidized. The aggregate direct loan limit is $138,500, including all federal loans received for undergraduate study.

Undergraduate students qualify for up to $5,500 per year in Perkins Loans. The exact amount depends upon your financial need, the amount of other aid you receive, and the amount of money available for such funds at your school. Graduate students can qualify for up to $80,00 each year in Perkins Loans.

Maximum Eligibility for Federal Student Loans



What Is Cost Of Attendance, And Why Does It Matter?

A school's "cost of attendance" (COA) is the average cost to attend for a single year of school on a full-time basis. Cost of attendance includes tuition and fees, books and supplies, room and board, transportation, and personal expenses.
Cost of attendance is pivotal in deciding your choice of school. The college will subtract your Expected Family Contribution (EFC) from cost of attendance to determine your need for financial aid – the higher the COA, the more aid you'll be able to get to help pay for college.

Cost of attendance is set by the school and reflects the average cost – not necessarily your cost. For example, your travel costs may be lower than what's reflected in the COA if you bicycle to class or take public transportation. Your food costs may be lower or higher based on your meal choices.

Each school is required by federal law to publish its COA, and since July 1, 2011, the Department of Education has been required to publish that information.
You can find the COA of every school at the US Department of Education's College Scorecard.

MEET THE EXPERT: Jay S. Fleischman

Our Student Loan Question and Answer sections were written by one of our experts, Jay S. Fleischman, a consumer protection attorney helping people with issues surrounding student loans and other debt problems. He is admitted to practice law in New York and California, and assists federal student loan borrowers nationwide.

Resources to Help Solidify the Lesson

You've tested yourself and digested the key concepts of this quickie lesson, and now reinforcements have arrived. Here are some helpful resources.

What Happens If My Financial Aid Package Falls Through?

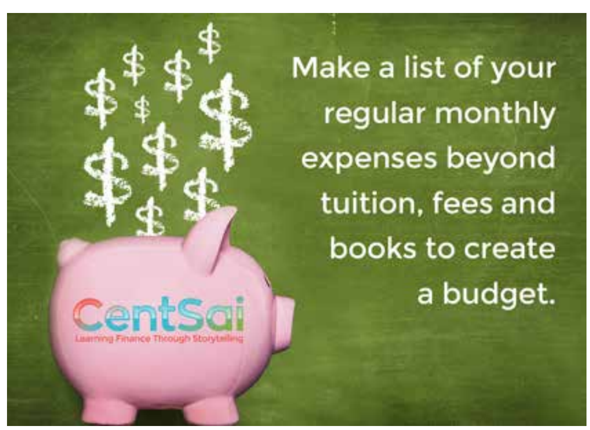
You should receive a payment schedule when your financial aid was approved. Federal student loans are disbursed at the beginning of each semester, when the college credits your account for the balance of the loan proceeds. If the loan isn't disbursed, check with your college to make sure that you're registered.

If your scholarship is rescinded or otherwise falls through, you may need to look for other ways to pay for the semester. Search for other scholarships to replace the lost funding, or investigate whether a private student loan is your best choice.

Your last option would be to withdraw from school for the semester, but be mindful of your school's deadlines for withdrawing without penalty.

How Do I Make Sure I Don't Run Out Of Money?

Your financial aid package is designed to cover the entire cost of attendance for the school year. Beyond the fixed costs of tuition and fees, you're responsible for budgeting accordingly. It's a good idea to keep track of your regular monthly expenses for such things as housing and utilities, then allocate the remaining funds on a monthly basis.



Do I Have To Buy My Books At The College Bookstore?

You do not have to buy your books at the college bookstore. Though it's a convenient way to purchase textbooks and supplies, other resources are available.

Amazon may offer better deals, and you should look out for discounts and coupons to save even more. When buying online, be sure to check out sites such as Ebates, which gives you cash back for purchases made at select online retailers. In addition, BigWords provides comparisons for used book prices.

One great way to save money on textbooks is to sell back the ones you bought last semester. Amazon, Chegg, Barnes & Noble, BookByte, Cash4Books, and Alibris all purchase used textbooks.

If all else fails, find a friend who's taking the same class and see if sharing a textbook works for you.

Can I Apply For A Scholarship While I'm In School?

There are plenty of scholarships available to current college students. Visit your financial aid office to learn about the resources available to you. Beyond that, there are numerous online search engines that can help you find the right scholarships for you. Among the most comprehensive are:

- CollegeBoard
- CollegeNet
- FastWeb
- Scholarships
- ScholarshipMonkey

Can I Get More Student Loans If I Fall Short During The Semester?

If you've budgeted properly, you shouldn't fall short on money during the semester. If you do, consider talking with a budgeting professional to help bring your finances in line for next semester.

You may be able to appeal for more aid in the middle of the semester, but doing so requires a change in your family's financial circumstances. In the absence of such a special circumstances review by your school, however, you won't qualify for more federal financial aid.

Private lenders, however, may be willing to give you more money if you fall short during the semester.

MEET THE EXPERT: Jay S. Fleischman

Our Student Loan Question and Answer sections were written by one of our experts, Jay S. Fleischman, a consumer protection attorney helping people with issues surrounding student loans and other debt problems. He is admitted to practice law in New York and California, and assists federal student loan borrowers nationwide.

Could you use some recommendations on student loan consolidation?

Visit our helpful listing of companies that may be able to help.