

Before You Take out Student Loans for Yourself or a Child

How you finance higher education *now* can impact you financially for years to come. Use these tips to help with your financing decisions.

Complete the Free Application for Federal Student Aid (FAFSA) every year you plan to go to school.

The FAFSA determines which federal, state, and school assistance programs and student loans you are eligible to receive, including Pell Grants and the New York State Tuition Assistance Program (TAP). Some programs, such as **grants**, give money toward college that you do not need to repay. **Loans**, on the other hand, you must repay with interest. Visit studentaid.gov/h/apply-for-aid/fafsa.

Important: Always consider federal assistance and loan programs *before* private lenders. Federal student loans have more borrower protections and typically come with a lower interest rate. You must complete the FAFSA to be eligible for federal student loans.

Read your financial aid offer letter carefully.

Many schools will send you a financial aid offer letter—also commonly referred to as an “Award Letter”—when they offer you admission. It’s important to read this letter carefully so you know what’s being offered and what you will have to pay for your education. The “aid” is often a mix of grants, loans, and work-study (money you can earn through qualifying part-time employment with the college or university). The letter may also mention optional loans like Parent PLUS loans, which your parent(s) will have to pay back. Each type of loan has a different interest rate and different options for forgiveness. In other words, some loans are a better deal than others.

Understand the risks of Parent PLUS loans.

If you take out a Parent PLUS loan on behalf of a child, you will have to start making payments as soon as the loan is disbursed, unless you request a deferment. If you defer, interest will accrue on the loan and your payments will be higher when you resume payment. If you cannot make payments while your child is enrolled, your child may not be able to register for classes. Parent PLUS loans do not come with the same set of income-driven repayment plans that other federal student loans offer.



If you apply for a Parent PLUS loan, lenders will check your credit. Any payments you make or do not make will affect your credit. Defaulting on payments can lead to garnishment of wages, tax refunds, and Social Security payments.

You cannot transfer Parent PLUS loans to your child. Repaying the loan is the parent’s legal responsibility.

Know the loan amount you need and accept no more than that amount.

Create a budget to determine the size of loan you will need and how much you expect to be able to repay after graduation. Try the FinAid Loan Calculator at finaid.org/calculators/loanpayments.

A simple rule of thumb is not to borrow more than you expect to be paid annually at your first job post graduation. Sometimes, lenders will offer you more than you need to pay for your education. You do not have to accept a larger amount. Borrowing too much means you will pay more in interest in the long term.

Shop around and compare private student loans only after you have exhausted federal student loans, work-study, scholarships, and grants.

Speak with more than one lender and compare agreements to see which one best meets your needs. Private student loans may have higher interest rates than federal student loans; may require you to begin making payments while you are still in school; and may have interest rates that are variable, meaning they can increase over time. The higher your credit score—and the credit score of your cosigner if you choose to use one—the lower the interest rate. *Note:* Your cosigner is responsible for paying the debt if you fail to pay the loan.

Compare fees, which can increase the cost of a loan, making it more expensive. Also compare loan terms—the number of years it takes to pay off the loan. The longer the loan term, the more you’ll pay overall.



Never sign anything you don't understand.

If a school pressures you to sign a contract or agreement on the spot, walk away. Always bring home important forms so you can read them more carefully and review them with people you trust.

Make sure you consider the long term.

A typical bachelor's degree program takes four to six years to complete, and there's a limit on how much money you can borrow in federal student loans. Make sure you can afford to pay tuition and living expenses for the entire time it takes to complete the program. Keep in mind that financial aid offers tend to be higher for the first year and may be reduced in later years.

If you think you may need to take remedial classes, consider CUNY Start, which provides intensive college preparation at a low cost. Visit www1.cuny.edu/sites/cunystart.

Also make sure you can afford to pay back your loans once you graduate. Except for rare circumstances, student loans are not dischargeable in bankruptcy.

Be careful of taking on too much debt.

Make sure you understand the terms of any loans and that you will be able to make the payments. The same

goes for your parents if they're considering federal Parent PLUS loans or being your cosigner on private student loans. Loans can lower your credit score if you don't pay them back on time, and student loan debt generally cannot be discharged in bankruptcy. Unpaid private student loan debt may result in legal action from debt collectors, and successful suits can lead to garnishment of your wages or tax liens on your property. Unpaid federal student loan debt can also lead to wage garnishment, as well as garnishment of your tax refund or Social Security payments.

Know your payment start date so you don't miss any payments.

Federal student loans and some private student loans allow you to defer payment while you're in school and for six months after graduation. This is known as a grace period. Some loans, like Parent PLUS loans, require payment as soon as the loan is disbursed. See section about Parent PLUS loans.

Important: Some loans, like *unsubsidized* federal loans, might accrue interest while you are in school and during the grace period. *Subsidized* loans do not accrue interest while you are in school or during the grace period.

Free Help

Get free help completing the Free Application for Federal Student Aid (FAFSA) with College Goal NY
Visit collegegoal.ny.gov for a list of event locations.

Get free professional financial counseling at an NYC Financial Empowerment Center
To book an appointment: Visit nyc.gov/TalkMoney | Call 311

NYC Financial Empowerment Centers are run by the Department of Consumer and Worker Protection in partnership with community-based organizations. Counselors can also make referrals to nonprofit legal services providers as needed.

Other Resources

College Board: bigfuture.collegeboard.org/pay-for-college/financial-aid-awards

College Navigator: nces.ed.gov/collegenavigator

College Scorecard: collegescorecard.ed.gov

Consumer Financial Protection Bureau (CFPB): consumerfinance.gov

Federal Student Aid (part of the U.S. Department of Education): studentaid.gov

National Association for College Admission Counseling: nacacnet.org/student

New York State Higher Education Services Corporation (HESC): hesc.ny.gov

U.S. Department of Education: studentaid.gov/understand-aid/types/loans/federal-vs-private