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PRESS RELEASE

BORROWING AND PAYING COLLEGE LOANS

Examining Both Sides of a Turbulent Market

SAN DIEGO, June 23, 2008 – With tuition costs on the rise and in a market in which a college education is almost mandatory, it is clear that many potential students will need to take out student loans. In fact, long term price trends make higher education an inflationary sector of the U.S. economy, and with tuition increases in recent years sometimes outpacing even explosive health care sections, it is apparent that loans will be considered in the financial planning for college. In addition to taking out loans, it is important to know your options when it comes to repaying the money. The key to remember is to borrow what you need now at a rate you can afford later.

Whatever your situation – whether you are pondering the idea of taking a college loan out this semester, or wavering at the fact that you still have to pay your current one off, it's important to remember that college loans are more than just dollars and cents. It's also about common sense. You took the time to pick the school you wanted to attend. The same care and attention should be applied when it comes to college loans.

[Read on for more tips about how to financially plan for college from San Diego Metropolitan Credit Union:](#)

Pondering A Loan?

Getting a loan

Students need to concentrate on their studies rather than worrying about loans. But, during this time of economic uncertainty, who will help? Some may feel weary about the process after learning that 51 lenders around the country have suspended their federal student loan programs.

But, U.S. Secretary of Education, Margaret Spellings recently announced the federal government's temporary plan to purchase loans from struggling lenders according to a *New York Times* report. This process will significantly stabilize the college lending market.

Types of loan available

Determining the type of loan to pursue may be confusing. Sallie Mae's 2007 survey of parents of college-bound freshman showed that one-third of those interviewed said they needed basic information about loans and payment plans.

Borrowers choose primarily from five types of loans:

- **Perkins loans:** Available to students with exceptional financial need, Perkins loans carry a fixed 5 percent interest rate. Repayment begins nine months after graduation; until then, the federal government picks up the interest.

- **Subsidized Stafford loans:** These loans are also based on financial need. Loans disbursed for the 2008-09 academic year carry a fixed 6 percent interest rate. The federal government pays the interest until repayment begins six months after the student leaves school.
- **Unsubsidized Stafford loans:** Regardless of need, any student who applies for federal financial aid can get one of these loans. Interest starts accruing as soon as the loan is disbursed, at a fixed rate of 6.8 percent. Borrowers can defer repayment until six months after leaving school.
- **Parent PLUS loans:** Parents also have the option of borrowing through the federal Parent PLUS program at a fixed rate of 8.5 percent. Some lenders let you postpone repayment until after a student graduates, but repayment usually begins within 60 days of disbursement.
- **Private Loans:** Students can fill any remaining gaps with private loans, which carry variable interest rates based on the borrower's credit rating. Students may need a creditworthy co-signer to get the best interest rates. Private loans don't carry federal guarantees of repayment, so they generally come with higher interest rates. Think of them as the educational equivalent of a second mortgage. Borrowing rates typically range from 6 percent to 11 percent, compared with the 6 percent to 8 percent on federally guaranteed debt.

You've graduated – Now what?

Paying back your loan

You received your loan and are blazing through your studies. Now here comes the next challenge: paying off your debt.

Depending on the lender, you can either pay the interest on the loan while still in college or wait until graduation. If you choose the former, borrowing costs drop because the latter allows the interest that builds up to be tacked on to the amount you borrowed.

Marc Stein of StudentLoanMonkey.com explains that if you take out the maximum Stafford amount in each of your four years in college and pay the interest while in school, you will owe just over \$37,000 after graduation. Compare this to a bill that soars up to \$44,500 if payments are deferred.

Latest report – ABC news

Recent college graduates and their parents are days away from enjoying what might be one of the last, best opportunities to save money on their student loans. On July 1, interest rates on some federal student loans will drop by 3 percentage points, allowing certain borrowers no longer in school to lock in a low rate for the life of their loans and potentially save thousands of dollars in interest charges. They can do this by converting student loans issued before July 1, 2006 into a single consolidation loan that could carry a fixed rate as low as 3.625 percent. There are a number of rules borrowers need to understand, the first being that waiting until July 1 is key. Act a day too soon, and it will cost them by locking them in at current rates ranging from 6.625 percent to 8.125 percent. To maximize their savings, however, former students should wait no longer than six months after leaving school. So somebody who just graduated in May has until November to reap the maximum benefit.

Strategies to a clean slate

New graduates may aim to pay the debt down as fast as possible, but may be better off going slow in the first year after graduation. Start saving so you get used to doing so while paying your debt. After the initial year, if you want to increase your payments, you'll have the security of knowing that you have money saved for emergencies.

The initial bills for student loan repayment can be a real shock to some graduates suggests Dara Duguay, director of the CitiBank office of financial education. Consolidating student loans over a longer period can bring down the monthly cost.

Consolidating your debt

Some people benefit from consolidating, while others don't. In fact, if you do decide to consolidate, your interest rate will increase slightly. But, it makes things a bit simpler by putting your loans all on one payment. Also, consolidation comes with a wider variety of repayment options. If you find it difficult to make payments, you can increase the life of the loan, making your monthly payments smaller.

Mark Kantrowitz, publisher of FinAid.org, suggests consolidating if you have variable rate loans. Come this July, rates will be the lowest in the history of the student loan program. Taking advantage could save several thousand dollars over the life of the loan, depending on how much you borrowed in the first place.

San Diego Metropolitan Credit Union (SDMCU) is committed to its community and members and provides services to families and individuals to manage their personal finances. SDMCU has been in business since 1934 and serves over 20,000 members. SDMCU's corporate headquarters are located in San Diego and information about SDMCU is available on the worldwide web at www.sdmcu.org.

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