GFG
College Financing Insights

Gaer Financial Group, Inc
128 Summit Ave
Hackensack, NJ.07601
201-291-2337-Office
201-621-4487 Fax
201-960-8861-Cell
MGaer@Collegefinancing.com

www.collegefinancing.com June 2016

Loans 2016-2017 School year Edition
Part 1

Ok, so it's time for loans. Make no mistake, loans are somewhat complicated. However, they can also be quite simple.

The loans we are primarily talking about are the loans that will fund the "remainder" or your "out-of –pocket" costs. These are the costs that financial aid does not cover. This does not include Stafford or Perkins Loans. Which as we have discussed before, I recommend you take out.

The first place you should start is a payment plan from your school. As discussed before, please call the fin aid dept at your school and ask about their payment plans. They will send you the info. Please be prepared to pay at least $300 a month. I say this because payment plans have no interest so any amount you can pay is money you will not have to borrow and pay interest on. They do however have enrollment fees. Maybe $50- $70. SO in effect that is interest you are prepaying. These plans are 10 month plans. $300 a month would equal $3000.

Now the next part is how are you going to pay the rest? There are several ways to pay this cost:

1- Income

2-Assets

3- Loans

When you pay with your disposable income (I know "What disposable income?") you forgo the opportunity to use this money for investments or other "priorities" such as mortgage and utilities, thus you may in the case of investments lose the interest you would receive. This is what is called an opportunity cost. However, it is not as easy as it seems. If you do not use this income where are you going to get the money? Either sell existing assets or use debt. Either one of these options has a cost. If you sell your assets, you are losing the interest and/or capital gains the asset may generate. If you use loans, of course you will have to pay interest, thus negating all or part of the opportunity cost.

If you have assets that you wish to sell to pay these costs, please pay very careful attention to the costs and taxes and perhaps penalties you incur when you sell. If you incur capital gains, this will add to your income and most likely negatively affect your financial aid for next year. If you need help with this please call or e-mail for a consultation. Do not take this lightly!

Borrowing is the most likely option for most families. Of course everyone in America had heard about the

continued from page 1

student loan scandal that is currently enveloping the Financial Aid offices of just about every school in the country. I could go on one of my rants but I will spare you my soap box speech. The bottom line is that you must know ALL your options, not just the ones your school suggests on their "Preferred Lender List." Some loans will have excessive fees (in excess of 6.5%), some will have NO fees. The lenders that have fees will either call them an "Origination Fee' or try to mask them as "Administration Fees." The interest rates will be somewhat comparable. It is similar to Mortgage Shopping; there are so many options (ARM's, Interest Only, ETC…) that Student Loans are a full time job. Borrowing the wrong way is comparable to using your credit card to pay. (I know someone is going to say "Yeah but I get the miles" I actually had someone say that to me. They would sacrifice 23% interest to get miles. Go figure) I do not get paid by any loan company so I have no conflict of interest. I only suggest loans that from my experience I know are good loans for you.

The Federal Parent PLUS loan is an Ok loan. Just like all the loans I will mention, there are benefits and drawbacks to each. I do not like this loan because you have to start paying it back immediately, upon disbursement. As you all know I believe in flexibility. You need to keep your powder dry just in case you need the money for "life" purposes. IE, you need a new car, a new roof, medical expenses. You do not want to be locked into payments. The interest rate for loans distributed after June 1st, 2016 is fixed at 6.4%, not very good. There is also a *4.27% fee* which in my opinion is absurd! The loan fee is a percentage of the loan amount and is proportionately deducted from each loan disbursement. So be aware that you may need to borrow an additional 4.27% to make your full payment to the school.
The benefits are that you can consolidate this loan (ONLY ONCE!) at a later date with any and all FEDERAL loans. This is good because you may be able to get a lower interest rate later. You may also defer the loan ONLY if you can demonstrate financial hardship. Forbearance is available as well if something catastrophic occurs, the loan will be cancelled. CATASTROPHIC!!! Not just you need more money. Things like death of the LOAN HOLDER, etc…Other benefits are the various repayment terms available to all federal loans. Please visit www.studentaid.ed.gov/sa/types/loans

NJ CLASS LOAN only available for NJ residents or going to school in NJ. NJ HEAA website.
http://www.hesaa.org/Pages/NJCLASSHome.aspx
This loan can be in the name of the student or parent. Student will need Co-signer. This loan program has underwent quite a few changes in the past years. Here is a quick summary of the program. For more info click on link above.

The program offers a 10 year loan with either a variable or fixed rate. There is NO FEE for variable rate loan.

The variable rate loan does not offer deferment of payments, you must start making interest and principal payments immediately. The current rate is 4.89% and is based on 3 month LIBOR (London Interbank Offered Rate) PLUS 4.25%. Rates and payments will vary but rate is capped at 9.5%.

NJ CLASS also offers fixed rates for a 10,15 and 20 yr. term. For the 10 yr. there is no deferment. You must start paying back interest and principal immediately. For the 15, you may choose either immediate repayment or interest only payments. The 20 year option allows either immediate repayment of full deferment of interest and principal. Be aware that the interest deferred is added back onto the principal and the total amount at repayment will be quite a surprise to the borrower.

- ✓ The 10 year rate is currently listed at 4.48%/ 5.52% APR.
- ✓ 15 yr is 5.19%/6.10% APR
- ✓ 20 yr is 7.15%/8.23% APR
- ✓ There is also a 3% administration fee for ALL FIXED TERM LOANS

The reason I am hesitant about these loans is the fine print. As you see there is quite a difference between

continued from page 2

the rate and APR. The reason is(I have cut and pasted this from their website) (bold type is my choice)

> The rates listed above are a reduced interest rate that NJCLASS offers for the first 12 monthly payments of principal and interest for the full deferral option in the Fixed Rate Program and for the first 48 monthly payments of principal and interest for all other fixed rate loans. This reduction assists borrowers in repaying more principal during these early months when the loan balance is highest. The result is a lower overall cost to the borrower. For Fixed Rate full deferral option loans, the rate steps up on the 13th month of repayment and for immediate repayment of principal & interest and monthly payments of interest only***, the rate steps up on the 49th month of principal and interest payment. The interest rate increases by 0.75%and stays at that rate for the remainder of the loan.*** For Graduate/Professional loans, the 0.75% interest rate step up occurs in the 49th month of principal and interest payment for all repayment options.
>
> The 3% fee for the fixed rate loans is deducted from each disbursement and the net amount of the loan is disbursed to the institution.

Differences Between Fed. and Private Loans

Among the differences between these two important loan programs are:

Private student loans:

- May require completing the Free Application for Federal Student Aid (FAFSA)
- Can help when federal student loans, scholarships, grants and other forms of financial aid aren't enough to fund your entire education
- Have interest rates and fees that are determined by the lender and often depend on your credit rating
- May require the borrower to have a cosigner, if the student does not qualify alone
- May or may not have deferment and forbearance options depending on the lender
- May offer borrower benefits in the form of interest rate discounts and rebates
- May require school certification of loan amount and enrollment at a participating school
- Require completion of a self-certification form

Federal student loans:

- Have low fixed interest rates
- May include federally-subsidized interest
- Provide flexible repayment and deferment options, including consolidation
- Provide options to postpone payments
- May have a longer repayment term
- Offer easier credit requirements
- Generally require completion of FASFA
- Require school certification

- Can cover qualified education expenses
- May offer borrower benefits in the form of interest rate discounts or rebates

After you've checked for free funding available to you, if you decide you need additional assistance paying for your education, it's time to look to federal student loans. These are long-term loans with low interest rates designed exclusively for those needing money to meet the costs associated with education.

Federal loans are the largest source of student loans around. They have attractive terms when compared to most other borrowing options - such as low fixed interest rates, federal subsidized interest possibilities, options to postpone payments, longer repayment terms, easier credit requirements, etc.

You should always plan to look for federal loan options before investigating private loan sources, because private student loans are sometimes more difficult to obtain and can often end up being very costly to you in the end. Private loans are designed to supplement federal loan programs and are available from schools, banks and education loan organizations. Private loans are also known as alternative loans and the terms often vary considerably based on the lender and borrower credit histories.

MY TAKE ON PRIVATE LOANS

Although the rates are variable, if you can get a low rate, say 3.5 %, that's a lot less than the PLUS or NJ CLASS loan. I do not know where and when interest rates are headed, and neither do you. But in the meantime you are saving that amount, the difference between the federal loan and the Variable rate Private Loan, during the time it takes for the interest rates to climb to the PLUS or CLASS levels. Therefore the bank loans would have to climb over the PLUS and CLASS rates for you to come out on the losing end. What I suggest would be to apply for the bank loans and see where your loan rates are. Use a cosigner because that lowers the rate. If the interest rate is not to your liking you can always go with the PLUS or Class.

Let's take an example. Using the 3.5% loan example on a $10,000 loan, you would be paying (forgetting about deferment or interest only payment plans) $350 a year in interest. Most likely your principle payments will be the same. On a PLUS loan you are paying 6.4% or $640 a year, plus another $427 per year in fees which gives us $1067. So just on interest side, you are saving $290 per year. You have to apply every year for an additional loan, so we will only consider the first loan in the interest of brevity.

So for every year that interest rates stay the same, you are "ahead" $290 (difference between variable 3.5% rate and fixed 6.4%) Because the fee is only for this loan's first year (remember every year you have to take out another loan, additional fee would apply) each year the effect would decrease. So in the second year, rates would have to go to 13.57% to 'break-even" When you add in the fee rates would have to skyrocket, and that means either your credit has taken a huge hit or world-wide economies caught fire. Not just a small camp fir but more like several towering infernos!

Year	PLUS PMT	Variable PMT	Difference
1st year Payment w fee	$1067	$350	$717
2nd Year Payment	$640	$1,357	-$717

Now of course if rates stay at this level, after the rise, or continue to rise, all bets are off!

Realize also that each year your variable rate stays below the fixed federal rate, you come out ahead and rates have to go that much higher and stay there to come out behind.

Also realize that this is a simplistic example. Specific situations may be much more complex!

I want to reiterate and emphasize that I am in no way advocating or recommending Private or variable rate loans. I just want to make sure that people understand the difference and that variable rate loans which were vilified during the financial crisis, do not have to be a four letter word as long as you understand the way it works!

HOME EQUITY

This may be the best *FINANCIAL OPTION*. That's assuming you do have equity in your home. Now I also know that some may not want to borrow from the home. I can understand that. That's why I emphasized the FINANCIAL part of it. I have often spoken of the "comfort" aspect of financial planning. Sometimes, you may be more comfortable doing something that may not being the best financial option. As my saying goes: "Sometimes you pay a price for comfort and convenience." Using your home for college funding is a perfect example. Home Equity rates are roughly 3-4%. They are also tax deductible which means that the TRUE cost of borrowing is even lower. Yes, Student loans are also deductible only up to $2500 of interest. So as a financial planner, I would have to advise you that the best *financial option* is a home equity loan or HELOC. However, I also live in the real world and when I advise people on all financial planning matters, I also look at the "personal" side. Many of my clients are reluctant to use their house as collateral for college. Many are just about to pay off your mortgage and can see the finish line of not having to write those checks every month. I envy that, and in good conscious, I could not advise you to take out a mortgage even though it is the best financial option. This brings us back to: "You pay a price for comfort." There are also some other drawbacks to using a home equity loan. There is no deferment (you have to start paying back immediately). God forbid something happens; they will foreclose on your house. So although it is a good financial option, and I do recommend it to some clients in the right circumstances. It may not be for you.

Many clients are wondering when the best time to get a loan is? Is it too late? I can tell you from personal experience that I have helped families get these loans into September. So it is not too late. As long as the school knows that you are in the midst of applying for these loans you will be OK. Generally it can take minutes for the application to get approved; or it can take weeks. It all depends on you and the loan company. They may need to do further reviews of your situation and credit etc…

I know I tried to cover a lot of info. There will be more Loan Newsletters to come. Many of you will still have questions please feel free to call me with any questions.

If you feel confused or overwhelmed by this process and want more information on how to get started, or if would like to discuss your specific situation, please do not hesitate to call or e-mail me at the numbers listed.

Until Next Time….

Best Wishes,
Michael Gaer

P.S. Please like, follow and connect with me on Facebook, and LinkedIn to get instantaneous updates and news regarding college financial planning.