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4 Questions to Ask During Student Loan Counseling

College student loan counseling leaves a lot to be desired, according to students and experts.

"It simply involved checking off boxes saying that I agree to certain terms," Simon Tam, an MBA student at Marylhurst University in Oregon, said via email. "There is no opportunity to interact at all."

Counseling for federal student loans, such as Stafford and PLUS loans, typically takes place online. The format requires students to scroll through a Web page that lays out how their loans are disbursed, how interest accrues and when repayment begins, among other things.

Borrowers then have to answer questions such as "What is the interest rate on a subsidized Stafford loan?" or "Are student loans dischargeable in bankruptcy?" says KC Deane, a research associate at the American Enterprise Institute's Center on Higher Education Reform.

"These very basic questions that students should know," says Deane. "The problem is that because it is this bizarre process of taking an online quiz that you don't have to study for, because the answers are right there, it just doesn't stick."

While students may be tempted to blow through their automated loan counseling, finding answers to key questions throughout the process can save them major headaches down the road, experts say.

Below are four questions students should have answers to before signing off on their student loan entrance counseling, even if it means they have to talk to a real person.

1. How much am I borrowing? This may seem like an obvious question, but few student borrowers truly grasp the amount they are taking out.

"It's treated too much like free money," Deane says.

Students should ensure they have a clear understanding not only of how much they borrow that first year, but how much they can expect to borrow over the course of their degree, Jim Anderson, director of financial aid at Montclair State University, said via email.

As a rule of thumb, students should cap their debt based on future earnings, says Mitchell Weiss, an adjunct professor of finance at the University of Hartford.

"You don't want to borrow more than what you can reasonably expect to earn," says Weiss, who is also cofounder of the university's Center for Personal Financial Responsibility.

Students can ensure their monthly loan payments don't exceed 10 percent of their income by keeping the total amount borrowed at or below the average first-year earnings for their degree field, he advises.

"That is really important because that will let you not live in your parents' basement," Weiss says.

2. What about interest and fees? Interest rates vary from student loan to student loan. When that interest will start accruing is also dependent on the type of loan.

Federal Perkins loans charge no interest while a student is in school, but they begin accumulating interest nine months after a student leaves school at a rate of 5 percent annually. Stafford loans come with an upfront fee of 0.5 percent and interest rates of 6.8 percent a year. Unsubsidized Stafford loans start compiling interest right away, but the subsidized version does not start tacking on the extra percentage until after a student leaves school.

"The subsidized, unsubsidized difference is a huge deal," says Deane, who points out the first student loan bill can be a shock for students. "With service fees and interest having accrued over the last however many years, they now owe a lot more than they thought at the front end."

3. Who is my lender? Student loans come in many forms and from several lenders. Where the money is coming from – the state, university, federal government or private lender – will determine important details such as interest rates, grace periods and repayment options, Deane, says.

It will also dictate who is sending you the bill.

Federal loans such as the Stafford and Parent PLUS loans are serviced by the Department of Education's Direct loan program. But Perkins loans, though technically federal loans, are often serviced by the university. Some states run lending programs, as well.

So without even taking out private loans, students could be tasked with keeping tabs on three separate loan statements and payment due dates, all housed on different websites. That means updating your address, signing up for electronic billing and negotiating repayment options three different times, Deane points out.

4. Where can I go to find this information when I need it? The timing of student loan counseling isn't ideal, Allesandra Lanza with American Student Assistance, a nonprofit focused on student debt, said via email.

"Counseling four years or more before repayment starts doesn't work," Lanza wrote. "Even exit counseling is six months before repayment starts – a lifetime for a recent college grad."

Even if students read through all of their loan documents, it's unlikely they will retain everything years down the road.

To ensure they have access to vital information – interest rates, repayment plans and consolidation and forgiveness options – borrowers should ask their financial aid adviser where they can easily access all of those details throughout the life of their student loans.

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