BORROWING STRATEGIES

Make Smart Decisions When Borrowing Money for Law School

August 2020
Majority of law students ...

... now graduate with an EDUCATIONAL MORTGAGE
Essentially, you’re financing an important investment in yourself

You can be successful …

- In repaying this “mortgage”
- Without having to sacrifice your career aspirations or the achievement of your other financial and personal goals

But, you must make **smart, strategic, and well-informed** decisions about how you finance your education!
Decisions to be made ...

- Should you borrow private student loans rather than federal student loans if you could get a lower interest rate?
- Should you borrow the minimum amount you need to achieve your goals?
- Should you pay the interest on your loans as it accrues while in school?

You need to understand how federal student loans differ from other forms of debt (including private student loans) to make informed decisions about these questions.
Let’s talk about ... 
.. the “elephant in the room!”

“DEBT”
Normally with debt ...

... you can feel “boxed into a corner” from a financial perspective!
Why are you in that “corner”? 

- Because payments are “locked-in” and based on the amount you owe—your **DEBT**—*not on your ability to repay that debt*

As such, **DEBT** puts you at **RISK** and **LIMITS** your options, financially

- Puts you at **RISK** of having to miss the payment due to loss of income or an unexpected expense.

- **LIMITS** your ability to pursue the job you want, invest for retirement, buy a house, etc.
Not all debt is the same ...

What’s the difference?

“DEBT”
Credit cards

“Debt”
Home mortgage, private student loans

“debt”
Federal student loans
With federal student loans...

... you don’t need to feel "boxed" into that corner!
In essence, federal student loans offer ... Choice Flexibility Safety
How are federal student loans different?

The **IMPORTANT** difference:

- Payments can be based on your **income** rather than on the **amount of your debt**

- Payments can be equal to **10%** of your **household’s discretionary income** – therefore, you could have **90%** of your household’s income for everything else!

As such, federal student loans need not “box you into a corner financially” – they provide **financial safeguards** that greatly reduce/minimize the **RISK and FINANCIAL BARRIERS** you normally associate with having debt!
Federal student loans also provide ...

- Payment relief options if you need to postpone repayment when experiencing financial hardship
  - **Deferment**
  - **Forbearance**
- Forgiveness on portion of unpaid debt
  - **Income-Driven Repayment (IDR) plans** – Balance forgiven after 20-25 years of qualifying IDR payments (*taxed benefit*)
  - **Public Service Loan Forgiveness** (PSLF) – Balance on Direct Loans forgiven after 120 months of qualifying public service (*tax-free benefit*)—**but beware of the risks**
What is the “cost” of debt?

Making an informed decision requires understanding the costs of that decision.
Debt always has two (2) costs ...

- **Direct Cost**
  - Interest
  - Fees

- **Opportunity Cost**
  - Value of what you are forgoing each month to repay the debt
  - *In essence, the interest you are losing*
Another factor to consider ...

Simple vs. Compounding Interest

- **Simple interest**
  - Increases in a **LINEAR** manner over time because it is not being “capitalized” (*not being added to the principal balance*)
  - Interest generally accrues on your federal student loans as “SIMPLE” interest during repayment

- **Compound interest**
  - Increases **EXPONENTIALLY** over time because it is being capitalized at regular time intervals (*added to the principal balance*)
  - Interest is compounding (perhaps as often as daily) on your INVESTMENTS and so your money is GROWING exponentially!

As such, you could end up with more money (not less) by investing your extra funds rather than paying off your federal loans faster!
So what should you do ... 

... when “mapping your course” financially in law school?
Should you borrow private loans?

You have the right to do so, BUT:

- You will lose the choice, flexibility and safety provided by federal student loans including the income-driven repayment options.

- You may lower the direct cost, but you will increase the opportunity cost (likely will have to repay the private loan faster, and therefore, have a higher monthly payment to qualify for the lower interest rate).

As such, you may be giving up more than you are gaining if you borrow a private loan – so exercise caution – be fully informed – investigate ALL the differences – don’t focus solely on the interest rate!
Should you borrow the minimum amount possible?

**YES, but:**

- Borrow only what you **NEED** to achieve your goal.
- Make sure you differentiate between **NEEDS** and **WANTS**.
- Understand what financial aid is intended to cover—*will it be enough to achieve your ultimate goal?*
- Consider all costs you’ll incur to achieve your goal …
  - How will you cover your living expenses during non-enrollment periods (e.g., summer break; after graduation)?
  - How will you pay for Bar Exam-related expenses?
  - How will you pay to relocate to your new job after law school?
“The 39-month Budget”

Other costs to consider (August 2020-December 2023)

- Bar Exam results typically are known about 39 months after you begin law school (November 2023)
- Financial aid is only available for 27 of those 39 months (9 months of each academic year)
- How will you pay for the other 12 months of expenses (living expenses, bar prep costs, relocation, etc.)?
  - Try not to use credit cards or private bar study loans
  - Plan your 39-month budget strategically
Be Strategic!

Plan you borrowing wisely; *don’t leave it to chance!*
How did you decide on how much to borrow?

Did you?:

- Borrow amount indicated by the Financial Aid Office?
- Estimate your budget and borrow only what you needed to fill the “gap”?
So, what is YOUR budget?

Your budget is:

- A financial “road map” – helps you get to where you want to go financially
- A spending plan – lays out what resources are available and how you spend those resources
- A guide to borrowing – will help you decide how much you need to borrow

Is your budget equal to:

- “Cost of Attendance” (COA)?

NO, you must create your own SPENDING PLAN
Cost of Attendance (COA)
“Student Expense Budget”

- Calculated by the Financial Aid Staff
- Includes both fixed educational costs and living expenses for the academic year at Vanderbilt Law
- **Total financial aid cannot exceed COA**
- Not prescriptive, and NOT your budget

<table>
<thead>
<tr>
<th>COA Elements</th>
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<tbody>
<tr>
<td>Tuition</td>
</tr>
<tr>
<td>Fees</td>
</tr>
<tr>
<td>Books and Supplies</td>
</tr>
<tr>
<td>Housing</td>
</tr>
<tr>
<td>Food</td>
</tr>
<tr>
<td>Transportation</td>
</tr>
<tr>
<td>Clothing</td>
</tr>
<tr>
<td>Misc. Personal Expenses</td>
</tr>
</tbody>
</table>
## “Building Your Own Budget”
### Vanderbilt Law School (1L) 2020-2021

<table>
<thead>
<tr>
<th>Expense (9 months)</th>
<th>“Cost of Attendance”</th>
<th>Your Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>$62,230</td>
<td>$</td>
</tr>
<tr>
<td>Fees (Student Services = $542; Programming = $700)</td>
<td>$1,242</td>
<td>$</td>
</tr>
<tr>
<td>Books and supplies (1L)</td>
<td>$1,700</td>
<td>$</td>
</tr>
<tr>
<td>Housing (rent, mortgage)</td>
<td>$12,160 (1L, $1,351/month)*</td>
<td>$</td>
</tr>
<tr>
<td>Utilities (electricity, phone, etc.)</td>
<td>$5,976 ($664/month)*</td>
<td>$</td>
</tr>
<tr>
<td>Food (groceries, eating out, etc.)</td>
<td>$1,484 ($165/month)*</td>
<td>$</td>
</tr>
<tr>
<td>Miscellaneous personal [includes health insurance, clothing, entertainment, personal care (haircuts, cosmetics, etc.) and other miscellaneous personal expenses]</td>
<td>$5,670 (Personal and Misc. = $326/mo.; Health Insurance = $304/mo.)</td>
<td>$</td>
</tr>
<tr>
<td><strong>TOTAL (includes $1,542 in loan fees)</strong></td>
<td><strong>$92,004 (Living Exp. = $2,506/month)</strong></td>
<td>$</td>
</tr>
</tbody>
</table>
“Saving on Spending” means making good choices!

Think about your spending, are you:

- Sharing the cost of housing with one or more roommates OR living alone?
- Bringing food/beverages from home OR buying them at school?
- Shopping for new clothes, eating out in restaurants, taking vacations or making weekend trips to get away, going to sporting events, etc.?

- YES!

- BUT, be mindful how much you spend on these things—*that money could be saved for future uses such as bar prep costs*—consider the “opportunity costs”
Managing Your Finances

Get your financial “ducks in a row”!
Managing Your Finances in Law School

- Follow your budget plan
- Manage your loans responsibly
- Keep accurate financial records
- Develop and maintain good credit
Don’t run out of funds!

- Financial aid funds are disbursed once each term – **budget accordingly**

- Consider opening a savings account to hold them until needed each month – **then “pay yourself” each month**

- Contact the **Financial Aid Office** immediately if you have financial challenges
Managing Your Loans

- Understand loan terms
- **Don’t ignore mail from loan servicer(s)**
- Promptly report changes in address, etc., to loan servicer(s)
- **Establish online access to your account with your loan servicer(s)**
- Meet all other borrower responsibilities
- Request deferments/forbearance if needed to postpone repayment
- Repay all you borrow
Loan servicer will be changing

Federal Direct Loans

- Direct Loans currently are “serviced” by the following private contractors (Summer 2020):

<table>
<thead>
<tr>
<th>CornerStone</th>
<th>HESC/Edfinancial</th>
</tr>
</thead>
<tbody>
<tr>
<td>FedLoan Servicing (PHEAA)</td>
<td>MOHELA</td>
</tr>
<tr>
<td>Granite State - GSMR</td>
<td>Navient</td>
</tr>
<tr>
<td>Great Lakes Educational Loan Services, Inc.</td>
<td>Nelnet</td>
</tr>
<tr>
<td></td>
<td>OSLA Servicing</td>
</tr>
</tbody>
</table>

- ED will be changing how your Direct Loans are serviced in the coming months; servicing will be managed directly through StudentAid.gov— you will be notified when the change occurs!

- Check your “dashboard” at: StudentAid.gov to verify contact information for the loan servicer for each of your federal loans.
You Are America’s Smartest Investment

The U.S. Department of Education’s office of Federal Student Aid (FSA) provides more than $120 billion in financial aid to help pay for college or career school each year.

StudentAid.gov

Updated web portal for managing your federal student loans
Federal Student Aid Portal

StudentAid.gov

The U.S. Department of Education (ED) has updated the Federal Student Aid web portal: StudentAid.gov

Following actions now can be completed at: StudentAid.gov

- Apply for Federal Direct Loans including the Federal Direct Consolidation Loan
- Complete entrance/exit loan counseling
- Review your federal student aid history including a summary and details about each of the federal student loans you have borrowed through programs regulated by ED (including all DIRECT loans)
- Apply for/re-certify/change Income-Driven Repayment (IDR) plans
- Learn about Public Service Loan Forgiveness (PSLF) using the “PSLF Help Tool”

Servicing of all Federal Direct Loans will be transferred to StudentAid.gov in the coming months—you will be notified when the transfer has been completed
Login using your **FSA ID** to view your DASHBOARD:
- Username
- Password

Once logged into your DASHBOARD, select the “**View Details**” link to view a summary and details of your federal student loans regulated by U.S. Department of Education

*(Replaces NSLDS.ed.gov)*
Should you pay the accruing interest while in school?

Interest on unsubsidized federal loans accrues as **SIMPLE** interest while in school!

- It is **NOT** compounding while you are in school!
- Interest that accrues while you are in school **capitalizes** (i.e., is added to the principal) typically when loan(s) enter/re-enter repayment.

Therefore, it is better to reduce amount you are borrowing rather than paying the accruing interest if you have funds to pay that interest while in school—you will get more “bang for your buck!”
Did you know?
You can return unused loan funds!

If you return loan funds within **120 days** of disbursement:

- Principal loan balance is reduced
- Interest and fees charged on loan amount returned are reversed

*Contact the Financial Aid Office for more information*
The CARES Act

- Student Loan Provisions due to COVID-19
The CARES Act

Student Loan Provisions

For all federal student loans owned by the U.S. Department of Education (includes all DIRECT LOANS):

- Interest is waived until September 30, 2020
  - Direct Unsubsidized Loan for 2020-2021 = 4.30% (fixed)
  - Direct Grad PLUS Loan for 2020-2021 = 5.30% (fixed)

- Loans in active repayment will be placed on an ADMINISTRATIVE FORBEARANCE thereby suspending repayment until September 30, 2020
  - These months will count as qualifying months toward all forgiveness benefits including PSLF
  - Borrowers must contact their loan servicer if they want to “opt out” of this administrative forbearance

For updates on the federal government’s response to the COVID-19 pandemic regarding student loans, go to: StudentAid.gov/coronavirus
Final Comments
A “SMART” Strategy

Keys to Success

- Stay focused on your goal(s) – *avoid unnecessary distractions*
- Take control of your spending so that you borrow only what you need
- Manage your loans responsibly
For more information ...

- Contact your loan servicer(s)
- Online resources:
  - Federal student loan repayment: StudentAid.gov
  - Federal student loan summary/details: StudentAid.gov
  - “Loan Simulator”: StudentAid.gov
  - Federal Direct Consolidation Loans: StudentAid.gov
  - Income-Driven Repayment (IDR) Plans: StudentAid.gov
  - Public Service Loan Forgiveness Program (PSLF):
    - “PSLF Help Tool” online at: StudentAid.gov
    - Added information/FAQs online at: StudentAid.gov/publicservice
    - Call Fedloan Servicing at: 1-855-265-4038
  - Free annual credit report: AnnualCreditReport.com
YOU CAN BE SMART!

Being smart about your borrowing will bring you greater success!

Jeffrey Hanson
Education Services

Vanderbilt Law School