

# SAFEGUARDING YOUR FUTURE

*One Student Loan at a Time*



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As tuition costs skyrocketed and thousands of students struggled to pay off enormous debt, New York State Attorney General Andrew M. Cuomo launched an investigation into the \$85 billion dollar student-loan industry.

The investigation, launched in February 2007, uncovered widespread conflicts of interest and improper relationships between some lenders and some colleges. The investigation revealed that some lenders were providing gifts, trips, and even stock to financial aid directors in exchange for placement on a school's preferred lender list. Additionally, some schools were improperly steering students to preferred lenders. The investigation also found some direct loan marketers were using deceptive and illegal marketing tactics to entice young borrowers.

The investigation resulted in landmark agreements with 26 schools and 13 major loan companies (including the nation's six largest lenders). Both lenders and schools across the nation agreed to adopt Cuomo's Code of Conduct prohibiting kickbacks and other improper activities, and contribute towards a National Education Fund, established to assist and educate high school students and their families about the student loan industry.

On May 29, 2007, the New York State legislature unanimously codified Cuomo's Code of Conduct in a new state law - The Student Lending Accountability, Transparency and Enforcement (SLATE) Act of 2007. The new law addresses the problems exposed by Cuomo's investigation and provides new rights and protections to safeguard students and families from deceptive practices.

In July 2008, the principle of SLATE became the law of the land. The U.S. Congress passed a new federal law - The Higher Education Opportunity Act of 2008 - to protect college students from lending abuses in any state around the country.



## Why Plan in Advance

According to recently released reports from the College Board, most students and their families can expect to pay, on average, from \$95 to \$1,404 more than last year for this year's tuition and fees, to attend college.

On average, if you consider tuition, fees, room, board, books, food, transportation and everyday expenses, private colleges and universities cost more than \$35,000 a year, and public schools more than \$17,000 a year. In New York State, attending the most competitive private colleges can cost as much as \$48,000 or more per year. These are some of the highest rates in the country.

So, how will YOU pay for college or a graduate degree? Nearly two thirds of college students graduate with student loan debt – debt that can sometimes take decades to pay back. This is why planning for higher education in advance and choosing the best way to finance your college education is one of the most important decisions you will make.

The sections below will guide you through the often confusing and complex road to financing your education. We'll begin by talking about your funding options.



## Consider All of Your Financial-Aid Options

The first step is to consider all your non-loan options before you think about borrowing money. Financial-aid is money from federal, state and private institutions used to pay college costs without having to pay the money back.

### Scholarships & Grants

Scholarships and grants also allow you to pay for your tuition without having to pay the money back. Scholarships are based on financial need or merit, and many are earmarked for women, minorities, athletes and students with specialized skills or interests.

Like scholarships, grants are cash awards given based on specific criteria – academic achievement, race or gender. Once you are awarded a grant, the money is yours to use for your education and does not have to be paid back.

Scholarships are awarded by schools and private organizations based on a range of criteria:

- **Merit-based** scholarships are awarded based on students' athletic, academic, artistic or other abilities. Financial need is not used to determine the recipient.
- **Need-based** scholarships are awarded primarily based on students and family's financial circumstances. Such scholarships will cover all or part of tuition and may even cover additional costs.
- **Ethnicity-based** scholarships are awarded based on race, religion, or national origin. After filtering the applicants based on their ethnicity, religion or national origin, additional factors are taken into consideration to determine the final recipients.
- **Institutional-based** scholarships are awarded by a specific college or university (institution) to a student planning to attend that institution.
- **General** scholarships are awarded for a variety of reasons which do not fall into any of the above categories. For example, some corporations give scholarships to their employees' children based upon academic achievement.

To learn more about scholarships and grants in New York State, visit the New York State Education Department at <http://usny.nysed.gov/highered/>

## Federal Work-Study

The Federal Work-Study Program is administered through the Office of Federal Student Aid, a program of the U.S. Department of Education. To be considered for FEDERAL and some STATE financial aid, you must meet specific requirements. To learn more, visit [www.studentaid.ed.gov](http://www.studentaid.ed.gov) and [www.students.gov](http://www.students.gov)

## Free Application for Federal Student Aid (FAFSA)

The Free Application for Federal Student Aid, or FAFSA, is the first step in the financial aid process. Use it to apply for federal student financial aid, such as Pell Grants, federal student loans, and college work-study. In addition, schools use FAFSA information to award their financial aid. To learn more about completing your application forms, visit <http://www.fafsa.ed.gov/>.

Remember, FAFSA forms are free. Be wary of organizations that charge a fee to submit your application.

## Understand Your Loan Options

After you've checked out all your non-loan options, you may still need more money for school. You or your parents may need to take out a loan. Loans can be a great resource – they allow us to borrow enough money to buy the things we need -- a car, a house, or in your case, a college education. But unlike a scholarship or a grant, loans must be paid back with interest after you graduate. The kind of loan and the terms of loan determine how much you have to pay back once you are out of school. Remember, a student loan is as serious as buying a house. If you fail to make a payment, it can negatively affect your credit for a long time.

There are two kinds of loans – federal loans and private loans. Federal loans typically offer better terms and much lower interest rates than private loans. So you should consider all your federal loan options before you consider taking out a private loan.



## Federal Loans

There are several different types of federal loans. Some schools offer the Ford Direct Loan program, and others participate in the Federal Family Education Loan Program, or “FFELP”

TYPES OF FEDERAL LOANS	Eligibility			Need Based	Award Limits	Fees*	Interest Rates**	Types of Lenders
	Under-graduate	Graduate	Parents					
FEDERAL PERKINS	Yes	Yes	No	Yes	Up to \$4,000/yr	No Fee	5%	School
FFELP STAFFORD Subsidized	Yes	Yes	No	Yes	Max. \$31,000 as a dependent undergraduate	Up to 2%	6%	A bank, credit union, or other private lender
Unsubsidized	Yes	Yes	No	No	Max. \$57,500 as an independent undergraduate	Up to 2%	6.8%	A bank, credit union, or other private lender
DIRECT STAFFORD LOANS Subsidized	Yes	Yes	No	Yes	Max. \$31,000 as a dependent undergraduate	2%	6.8%	U.S. Department of Education
Unsubsidized	Yes	Yes	No	No	Max. \$57,000 as an independent undergraduate	2%	6.8%	U.S. Department of Education
FFELP PLUS	No	Yes	Yes	No	Cost of attendance minus other financial aid	Up to 4%	8.5%	A bank, credit union, or other private lender
DIRECT PLUS	No	Yes	Yes	No	Cost of attendance minus other financial aid	4%	7.9%	U.S. Department of Education

\* Includes origination and guarantee fees

\*\* Interest rates vary annually. Information above for July 1st 2008 - June 30th 2009

Remember, loan consolidation allows a borrower to lump all loans into one loan for simplified payment. If you have more than one FFELP loan, you are eligible for a Federal Loan Consolidation Program. All FFELP and Direct Stafford Loan borrowers are eligible to consolidate after they graduate, leave school, or drop below half-time enrollment. PLUS loans are eligible for consolidation once they are fully disbursed. Borrowers who are delinquent or in default must meet certain requirements before they may consolidate their loans. To learn more about loan consolidation, visit <http://loanconsolidation.ed.gov/>

## Private Loans

You might find that after considering all your federal loan options, you are still left with a gap. If that's the case, then you may want consider taking out a private loan.

Private loans are offered by lenders without the involvement of the federal government. Private loans can help bridge the gap between the cost of your education and your other financial aid dollars. Compare the interest rates and other benefits of private loans to those of federal Stafford and PLUS loans before making a decision. Remember, private loans usually come with higher interest rates than federal loans.



To calculate the costs of your higher education, you may want to use custom calculators made available on web sites such as <http://www.finaid.org/calculators/>. These calculators can help you figure out how much school will cost, how much you need to save and how much aid you'll need. Be careful, some web sites are connected to specific lenders or guarantee associations and should not be considered a source of objective information about loan options.

As part of its investigation into the college loan industry, the New York State Attorney General's Office found that some lenders use deceptive TV, radio or online ads, phone calls or fraudulent mail solicitations. If you have questions about a loan company, visit the Better Business Bureau at [www.bbb.org](http://www.bbb.org)

## Ask Tough Questions Before Making a Financial Decision

Before you commit to a loan, make sure to ask the financial-aid office or a lender these questions (to learn more about the terminology in this section, please see the Glossary)

- ✓ How does the financial aid office select preferred lenders? Do the schools or financial aid officials receive any payment, benefits, or perks from lenders?
- ✓ What borrower benefits and rate discounts do the lenders offer? Which of those benefits are contingent on your making a certain number of consecutive timely payments?
- ✓ What percentages of borrowers actually receive the borrower benefits or rate discounts that are contingent on a certain number of timely payments?
- ✓ Does the lender typically sell its loans? Has the lender agreed to sell loans to another lender?
- ✓ Will my borrower benefits and rate discounts continue if my loan is sold?
- ✓ How many students actually receive the lender's advertised "as low as" interest rate?
- ✓ What is the interest rate of the loan? Will the interest rate remain the same for the entire life of the loan?
- ✓ When will repayment begin, and will interest accrue while I'm in school?
- ✓ What is the total amount I will need to pay over the life of the loan, and what will my monthly payments be?
- ✓ How long is the repayment period for the loan, and is there a penalty for paying back the loan before the end of that period?
- ✓ What are the penalties for missing monthly payments?

## USE YOUR BILL OF RIGHTS TO GET A LOAN IN YOUR BEST INTEREST

Remember, New York State has passed a new law that gives to students and parents new rights and protections. Additionally, in July 2008, the U.S. Congress passed a new federal law to protect college students from lending abuses in any state around the country.

Federal and state law gives you the right to:

- Get unbiased advice about loans and lenders from your financial aid office.
- Choose the lender that is best for you, even if that lender is not included on your school's preferred lender lists.
- Know what criteria your school uses to select preferred lenders. And the right to know whether preferred lenders are paying the school or financial aid officials.
- Know what benefits or rate discounts lenders offer, and whether those benefits or discounts will be available immediately, or only after a certain number of consecutive timely payments.
- Know if a lender has agreed to sell its loans to another lender.
- Know whether borrower benefits and discounts will continue if the loan is sold.
- Know what interest rate you will be paying for the loan before you borrow.
- Exhaust your federal borrowing options (Stafford, PLUS, and Perkins) before turning to higher-cost private loans.



## GLOSSARY

Here are a list of terms you should learn before taking out a loan.

**Borrower:** The person (you or your parents) who receives loans to pay for school.

**Capitalization:** During certain periods where no payments are being made on a loan, such as a deferment period, the interest that accrues is added to the principal balance of the loan. The more frequently the interest is capitalized, the higher the overall cost of the loan.

**Deferment:** Under certain circumstances borrowers may suspend payments of a loan. This is called "deferment". During a deferment, interest that accrues will be capitalized, or added to the principal of the loan.

**Disbursement:** The term used when money is transferred from a lender to you and your school.

**Fixed Interest Rate:** A fixed interest rate is an interest rate that stays the same over the life of the loan.

**Forbearance:** A lender's agreement to temporarily stop or postpone payments or agree to accept smaller payments from a borrower. Interest continues to accrue during a forbearance period.

**Grace period:** A grace period is a six-or nine month period following graduation or separation from school during which the student is not required to make loan repayments. Grace periods are available in connection with certain types of loans.

**Promissory Note:** The document you sign agreeing to borrow and repay money for school.

**Variable Interest Rate:** A variable interest rate is an interest rate that changes over the life of the loan. As the rate varies the monthly payment amount changes too.

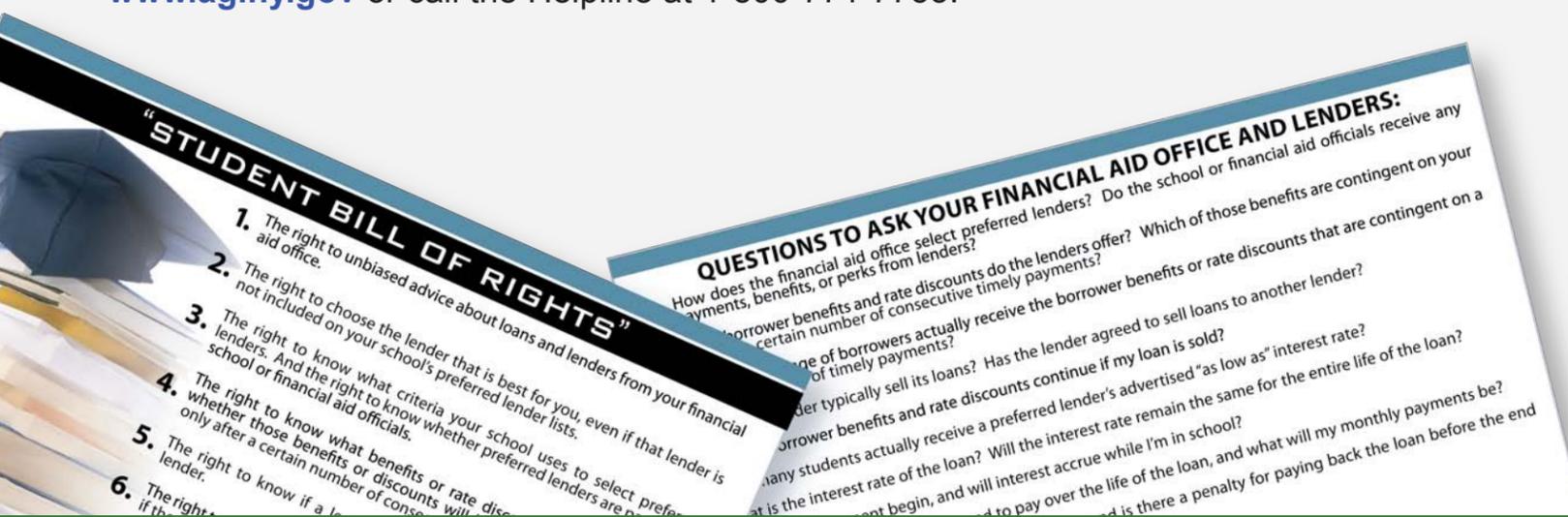
## RESOURCES

Here are some useful web sites:

- To file for Federal Student Aid at no charge, visit:  
<http://www.fafsa.ed.gov/>
- To learn more about preparing for higher education, visit:  
<http://studentaid.ed.gov>
- To learn more about Financial Aid Resources, visit:  
<http://www.finaid.org>
- To calculate the costs of your higher education, visit:  
<http://www.finaid.org/calculators/>
- To learn more about safe borrowing, visit  
[www.safeborrowing.com](http://www.safeborrowing.com)
- To learn more about improved student loan disclosures and counseling, visit Consumers Union:  
<http://www.consumersunion.org/pdf/CU-College.pdf>
- To learn more about higher education including scholarships and grant in New York, visit the New York State Board of Education:  
<http://usny.nysed.gov/highered/>
- To download the Student Bill of Rights, visit:  
[http://www.ag.ny.gov/bureaus/student\\_loan/student\\_bill\\_of\\_rights.html](http://www.ag.ny.gov/bureaus/student_loan/student_bill_of_rights.html)
- To file a complaint, visit the New York State Attorney General at [www.ag.ny.gov](http://www.ag.ny.gov) or call the Helpline at 1-800-771-7755.

## POINTS TO REMEMBER

- Exploring work study, scholarships and grants can help you avoid borrowing or help reduce the amount you may need to borrow.
- There are two kinds of loans –federal loans and private loans. Federal loans typically offer better terms and much lower interest rates than private loans.
- Speak with your guidance counselor or call a college’s financial aid office for help.
- Although your school is there to help you, do your own research and make your own financial decisions.
- Beware of loan companies using deceptive advertising or false solicitations to entice you.
- Do not hesitate to ask a lender tough questions before making a decision.
- Know your rights under New York State law and learn how to use them to get a loan in your best interest.





To file a complaint or get more information on the Office of the Attorney General's activities regarding your rights in student lending please go to [www.ag.ny.gov](http://www.ag.ny.gov) or call The Attorney General's Hotline: 1-800-771-7755