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Vol. IV, Issue 5

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THIS MONTH'S TOPIC:

Student Loans

Student loans are often considered an investment in the future because obtaining post secondary education will likely increase an individual's lifetime earning power. However, with the rising costs of college tuition, the amount of financial assistance that students are borrowing is also increasing. At the end of 2012, student loan debt exceeded one trillion dollars. According to The Project on Student Debt, an estimated two-thirds (66%) of 2011 college graduates had some form of student loan debt, with an average student loan debt of $26,600 per graduate.

Debt of any type can negatively impact an individual's financial stability, as well as long-term financial success. Repaying student loan debt can be challenging. These challenges may include unemployment, entry-level salaries, or additional family financial obligations. It is not surprising that the majority of student loan debt is carried by younger individuals-- Americans under age 40 carry 66% of the total student loan debt.

Sixty-six percent of student loan debt is owed by Americans under age 40.

There are several different types of student loans. Federal student loans typically offer the best rates and terms, and do not have to be repaid until a student graduates, leave schools, or his enrollment status falls below full-time. Several types of loan repayment plans exist for federal student loans. Additionally, federal student loans do not have a prepayment penalty and you may switch repayment plans without penalty. Federal student loans have a standard 10 year repayment schedule, but it is possible to choose a loan repayment schedule of up to 30 years. Your monthly payment amount is determined by the amount you borrowed, your interest rate, and the length of repayment. Stretching your student loans payments over a longer period of time decreases your monthly payment; however, the overall cost of the loan will be greater, because you are paying more in interest.

Private student loans have different rates, terms, and repayment plans than federal student loans. If you have a private student loan, consult with your lender for more information.

Upon graduation, individuals should work with their lender to draft a repayment plan that fits within their budget. While in school, students should be encouraged to borrow minimally--limiting the use of student loans to cover the basic costs associated with an education, tuition, fees, books, room, or board. Additionally, when choosing a major, students should research starting salaries, earning potential, job availability, and unemployment rates in their field of interest. Earning potential and a time frame for loan repayment should be considered when borrowing money for your college education.

For more information on The Project on Student Debt, please visit: www.projectonstudentdebt.org.

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