



BORROWING STRATEGIES

**Make Smart Decisions
When Borrowing Money
for Law School**

August 2021

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**Jeffrey Hanson
Education Services**

Vanderbilt Law School

Majority of law students ...

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... now graduate with an
EDUCATIONAL MORTGAGE

Essentially, you're financing an important investment in yourself

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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 ...

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- ❑ 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 law 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.

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Let's talk about ...

.. the “elephant in the room!”



“DEBT”



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Normally with debt ...

... you're ***“boxed into a corner”***
from a financial perspective!

Why are you in that “corner”?

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- ❑ 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?

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“DEBT”

Credit cards

“Debt”

*Home mortgage,
private student loans*

“debt”

Federal student loans



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With federal student loans...

... you don't need to be
“boxed” into that corner!

**In essence,
federal student loans offer ...**

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Choice

Flexibility

Safety

How are federal student loans different?

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*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 ...

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- ❑ 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**



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What is the “cost” of debt?

Making an informed decision requires understanding the costs of that decision

Debt always has two (2) costs ...

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❑ **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*

“Opportunity Cost”

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- ❑ It's about **trade-offs**
- ❑ You have alternatives when you use your scarce resources (*i.e., time and money*)
- ❑ Ask yourself:
 - ❑ “Am I putting my time/my money to its **‘highest’** and **‘best’** use?”

Another factor to consider ...

Simple vs. Compounding Interest

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❑ **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 both during school and in repayment

❑ **Compound interest**

- ❑ Increases **EXPONENTIALLY** over time because it is being capitalized (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!

Fees and Interest Rates

Federal Direct Loans, 2021-2022

Loan Fees	Direct Unsubsidized Loan	Direct Grad Plus Loan
10/1/20 – 9/30/22	1.057%	4.228%
Interest Rates	Direct Unsubsidized Loan	Direct Grad Plus Loan
7/1/21 – 6/30/22	5.28%	6.28%
7/1/22 – 6/30/23	tbd	tbd
Rate Structure	Variable rate that becomes FIXED	
Rate Formula	“High yield on 10-year Treasury note” + SPREAD/MARGIN	
Spread/Margin	3.6%	4.6%
Maximum Rate	9.50%	10.50%



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So what should you do ...

... when “***mapping your course***”
financially in law school?

Should you borrow private loans?

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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 likely will increase the **opportunity cost** (*you 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?

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YES, borrow only what you **NEED** to achieve your goal(s), but:

- ❑ 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(s)
 - ❑ How will you cover your living expenses during non-enrollment periods (e.g., summer break)?
 - ❑ How will you pay for your Bar Exam expenses including living expenses after you graduate and before you start earning a paycheck?

“The 39-month Budget”

Other costs to consider (August 2021-November 2024)

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- ❑ Bar Exam results typically are known about 39 months after you begin law school *(November 2024)*
- ❑ 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***



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Be Strategic!

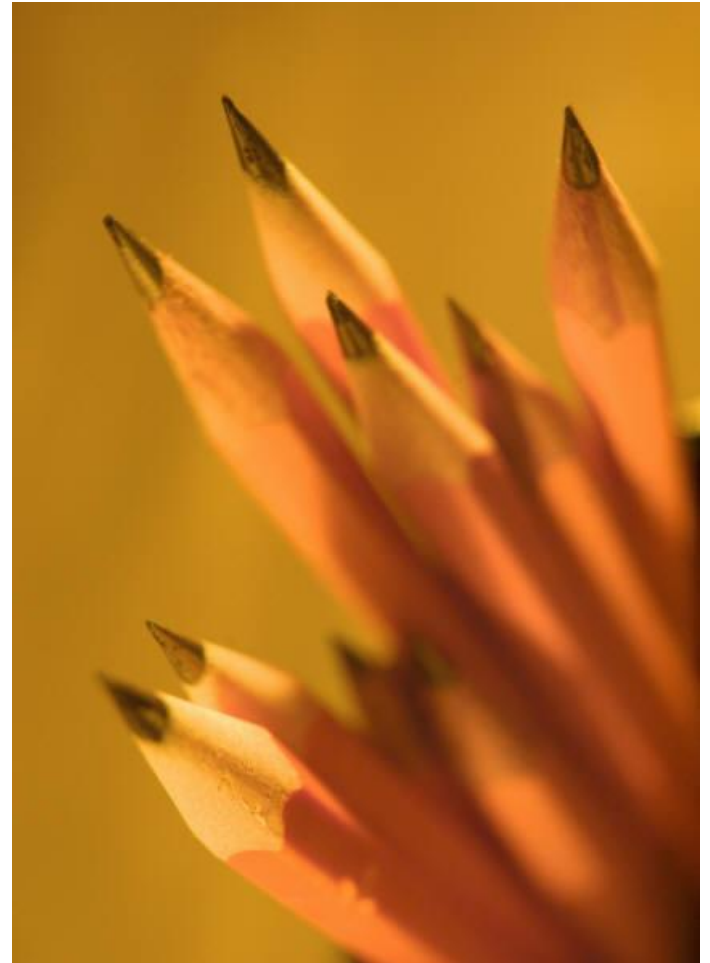
Plan your borrowing wisely;
don't leave it to chance!

When deciding how much to borrow ...

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Should you:

- ☐ Borrow amount indicated on your financial aid notice?
- ☐ Borrow maximum amount possible?
- ☐ Estimate your budget and borrow only what you need?





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Deciding how much to borrow ...

... requires that you
“Build Your Own Budget” (BYOB)!

What is a budget?

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- ❑ **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*

So, what is YOUR budget?

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Is your budget equal to:

☐ **“Cost of Attendance” (COA)?**

NO, you need to create your own ...

☐ **Spending plan**

Cost of Attendance (COA)

“Student Expense Budget”

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

COA Elements
Tuition
Fees
Books and Supplies
Housing
Food
Transportation
Clothing
Misc. Personal Expenses

What are **YOUR** expenses?

2021-2022 Expenses <i>(9 months, full-time)</i> Vanderbilt Law School	"Cost of Attendance"	Your Expenses
Tuition	\$64,284	\$
Fees <i>(Student Services = \$562; Programming = \$700; transcript fee = \$100; Student Health fee = \$696)</i>	\$2,058	\$
Books and supplies (1L)	\$1,700	\$
Housing <i>(rent, mortgage)</i>	\$12,402 <i>(\$1,378/month)*</i>	\$
Utilities <i>(electricity, phone, etc.)</i>		\$
Food <i>(groceries, eating out, etc.)</i>	\$6,192 <i>(\$688/month)*</i>	\$
Transportation	\$1,440 <i>(\$160/month)*</i>	\$
Miscellaneous personal <i>[includes health insurance, clothing, entertainment, personal care (haircuts, cosmetics, etc.) and other miscellaneous personal expenses]</i>	\$5,670 <i>(Personal and Misc. = \$326/mo.)*</i> <i>(Health Insurance = \$304/mo.)</i>	\$
TOTAL <i>(includes \$1,540 in loan fees)</i>	\$95,286 <i>*(Living Exp. = \$2,552/month)</i>	\$

What are **YOUR** resources?

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Resource	Amount
Scholarships and grants	\$
Savings	\$
Money from family	\$
In-school earnings	\$
Other	\$
TOTAL RESOURCES	\$

How much do you **NEED** to borrow?

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Item	Amount
Total resources	\$
- Total expenses	\$
= BALANCE	\$
If balance is NEGATIVE, you'll likely need to borrow student loans to fund that amount. <i>AND don't overlook the reality that you have a "39-month" budget in order to achieve your goal!</i>	

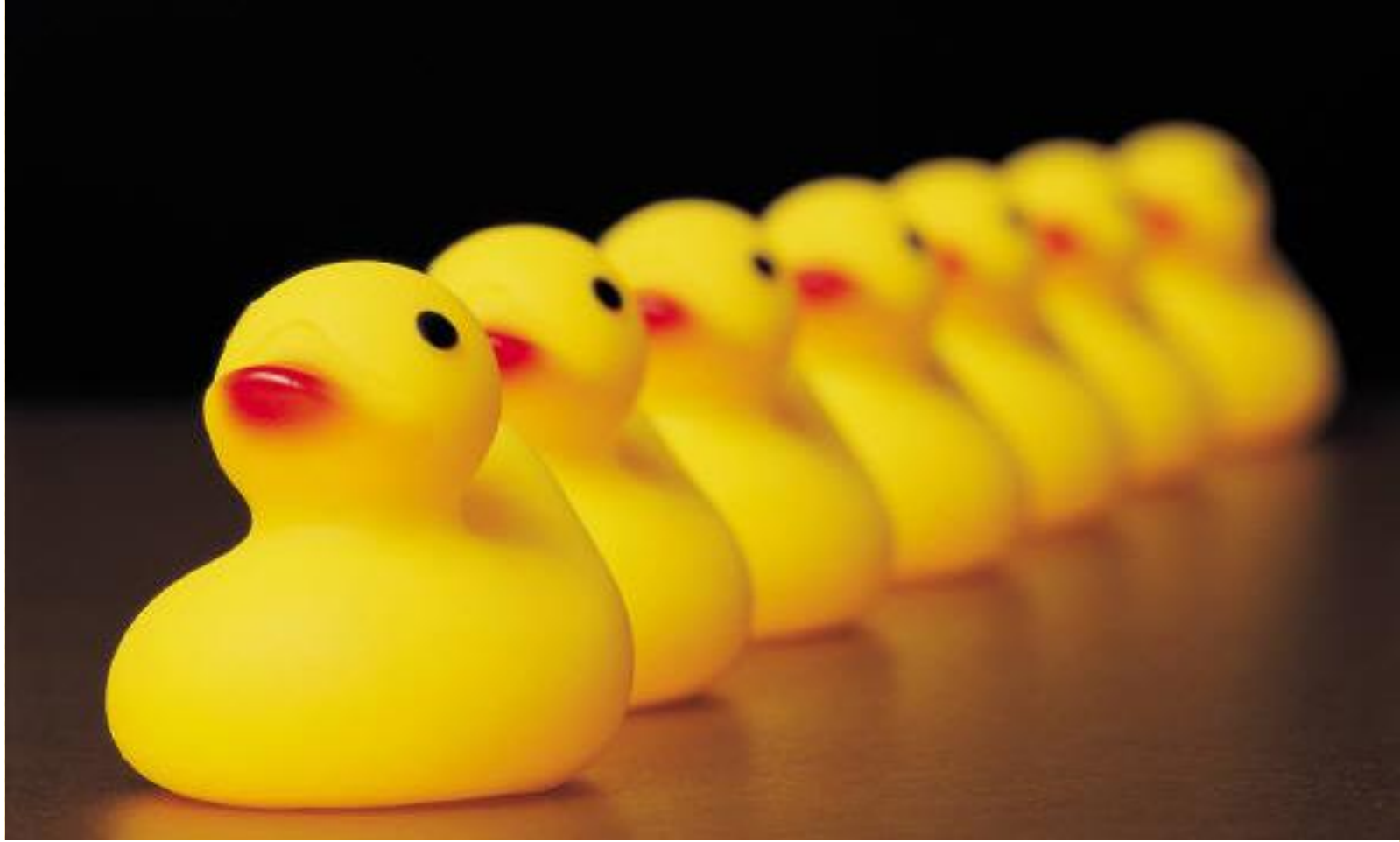
Spending is about **CHOICES**

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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 your summer expenses and Bar Exam related costs*—consider the “**opportunity costs**”.



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Managing Your Finances

Get your financial “ducks in a row”!

Managing Your Finances in Law School

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- ❑ Follow your budget plan
- ❑ Manage your loans responsibly
- ❑ Keep accurate financial records
- ❑ Develop and maintain good credit

Sticking with your budget ...

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- ❑ Track your spending
- ❑ Buy with cash
- ❑ Pay yourself monthly
- ❑ Test yourself; try the “**Big Chill**”
- ❑ Use online tools, e.g., *mint.com*

Don't run out of funds!

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- ❑ Financial aid funds are disbursed once each term – **budget accordingly**
- ❑ Consider opening a savings account to “hold” your funds until needed – **then “pay yourself” each month**
- ❑ Contact the financial aid staff immediately if you are having financial challenges



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Managing Your Loans

Start now! Take control! Plan ahead!

Managing Your Loans

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- ❑ Understand the loan terms
- ❑ **Don't ignore mail from loan servicer(s)**
- ❑ Promptly report changes in your 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 that you owe on time

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.

Log In

Create Account

Considering School

I'm thinking about going to college or a career school.

In School

I'm in the process of earning a degree or certificate.

Parent

I want to help my child pay for college.

In Repayment

I have loans I need to repay.

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StudentAid.gov

***Updated web portal for managing
your federal student loans***

Federal Student Aid Portal

[StudentAid.gov](https://studentaid.gov)

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- ❑ Following actions now can be completed at: [StudentAid.gov](https://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](https://studentaid.gov) in the coming months—you *will be notified when the transfer has been completed*

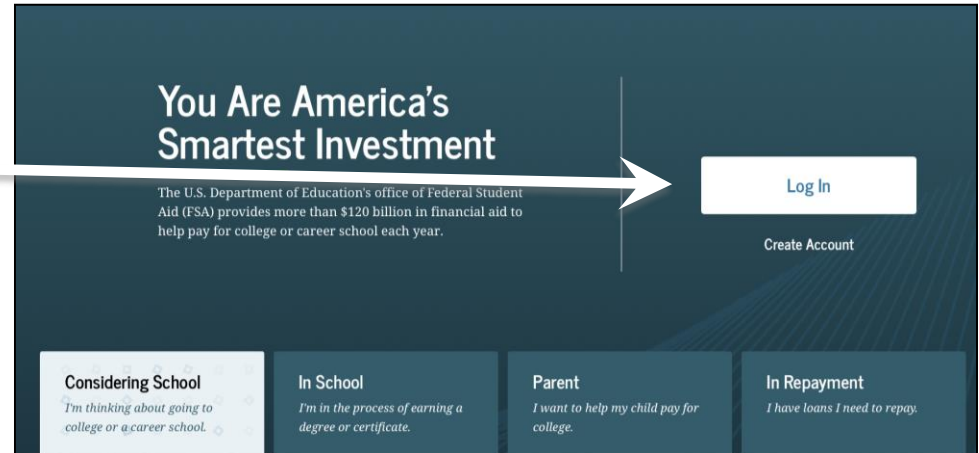
StudentAid.gov

Loan Summary and Details

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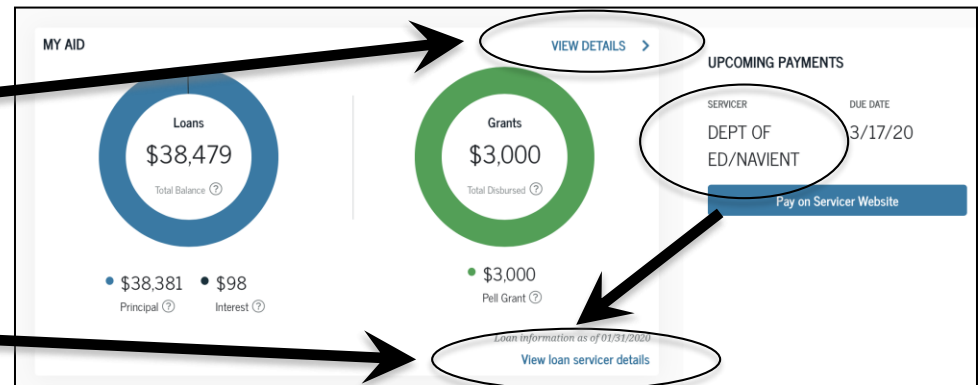
Login using your **FSA ID** to view your DASHBOARD:

- ❑ 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. Loan servicer details also appear here.

(HPSL/LDS regulated by HHS do not appear here.)



Loan servicer will be changing

Federal Direct Loans

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- Direct Loans currently are “serviced” by the following private contractors (*August 2021*):

CornerStone	HESC/Edfinancial
FedLoan Servicing (PHEAA)	MOHELA
Granite State - GSMR	Navient
Great Lakes Educational Loan Services, Inc.	Nelnet
	OSLA Servicing

- Check your “dashboard” at: ***StudentAid.gov*** to verify contact information for the loan servicer for each of your federal loans.
- 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!***

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Final Comments

Should you pay the accruing interest while in school?

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*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!

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*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

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

- ❑ Interest is waived until **SEPTEMBER 30, 2021.**
 - ❑ Direct Unsubsidized Loan for 2021-2022 = 5.28% (*fixed*)
 - ❑ Direct Grad PLUS Loan for 2021-2022 = 6.28% (*fixed*)
- ❑ Loans in active repayment will be placed on an ADMINISTRATIVE FORBEARANCE thereby suspending repayment until **SEPTEMBER 30, 2021.**
 - ❑ These months will count as qualifying months toward all forgiveness benefits including Public Service Loan Forgiveness (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](https://studentaid.gov/coronavirus)

A “SMART” Strategy

Keys to Success

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- ❑ 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.



GOLD CARD

INTERNATIONAL CREDIT

6179 500 0574 692

317

EXP 01/2015



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Use credit cards for ***convenience ...***

... NOT for credit!

For more information ...

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- ❑ Contact Financial Aid Office
- ❑ 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***

TAKE CONTROL OF YOUR FINANCES

*Be smart about
your borrowing;
it will bring you
greater success!*

