What You Need to Know: Federal Student Loans (Part 3) - An ACCESS Special Report

Our report is broken into four parts, this being the third in the series. In part 1 we reviewed your options for financing college. In part 2 we addressed issues dealing with the loan applications process. Here we address the cost of college and loan acceptance.

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How do I determine if I'm borrowing too much money?

Various factors should be taken into consideration when deciding how much money to borrow. Three key factors are:

- Which college/university you will attend

- Your major field of study and expected average earnings upon graduation

- Personal factors

College/University you will attend - Colleges and universities are not created equally. Some schools have a high overall ranking while others are completely unranked. The same holds true for specific fields of study. The overall school ranking may not be very high but perhaps the school is highly ranked for a particular major.

School rankings can have a major impact on earnings expectations upon graduation.

Additionally, colleges and universities have differing rates of graduation, and differing numbers of students that can't afford to repay their loans; going into default.

The White House publishes the College Scorecard. It allows users to view this information in a simple, graphic format. Simply enter the name of the college or university that is being considered and you can see what percentage of students actually graduate, what percentage of students default on their loans and the average amount borrowed. The site is

really only good for general information as it doesn't allow the user to break the numbers down based on major, but it is a good place to start.

US News and World Report also publishes a list of college and graduate school rankings. Some of the information on their site requires payment but much of it is available for free. Their list allows the user to break rankings down by major.

Major field of study - Your lifetime earning potential is significantly influenced by your major field of study. Knowing how much money you can expect to earn in your selected field will go a long way towards telling you how much you can reasonably borrow.

The Hamilton Project has produced an interactive tool that allows you to select a particular degree and see how much money you can expect to earn once you graduate. The tool is not college specific and it doesn't cover every single major available but again, it provides a good starting point.

You should also ask any school you are considering to provide you with specific information on how they are ranked for the major you are considering, what their graduation rate is in that major and what you can expect to earn with that major after you graduate.

Remember, the biggest key factor to your success is you. Successful people will typically tell you that the key to success is to do something you enjoy.

Personal factors associated with the individual student - This is probably the most important factor in the borrowing decision and it requires you to be honest with yourself. Have you always been a "straight A" student or did you make it through high school by the skin on your teeth? Do you like school or hate it? Are you going to college because you are passionate about a particular field or are you at a point that you really don't know what career you want to pursue when you graduate?

If you have always disliked school and you think there is a chance that you won't graduate from college, then any amount you borrow is simply a waste of money. Graduation or not, you will still have to repay your loans.

Even if you plan to attend a highly ranked school in your major, if you graduate at the bottom of your class, your earning potential upon graduation could be significantly lower than that of the average student in your class. 50% of people who start college today will never complete it. If you have any indication that you or your child may be in that group of people then you may want to explore alternatives.

Community college may be an option. Community colleges are significantly lower in cost than most four-year schools; often allowing students to attend without any need for a loan. Students can usually continue to live at home while exploring their educational options.

Another option is to limit your initial applications to in-state public universities. Many states and municipalities offer tuition assistants in the form of grants to students who graduate from high schools in their state/city. Depending upon where you live, these grants can be enough to offset virtually all of the costs associated with attending college.

Do I have to accept the entire amount of money offered in each student loan I'm awarded?

No. As a borrower, you have the ability to specify how much money (if any) you will borrow and which of the loans offered that you will accept.

In fact, it is not a good idea to accept the entire amount of money offered without first doing further consideration. As previously mentioned, federal student loans are designed to cover more than just tuition. You may also use them to cover the cost of books and living expenses. So, if you will be living at home, or if your parents have agreed to cover the cost of your books, you may not need all the money being offered. And if you know you will be receiving a grant or

scholarship which will partially offset your costs, the amount of money you need to borrow will be reduced. You should make sure these amounts are backed out prior to accepting any loans.

Parents and students should sit down together and discuss the amount of money required for college. A discussion about the amount of money needed to cover tuition, fees, books and living expenses is the perfect starting point.

Most colleges and universities publish an annual schedule of tuition and fees. This is usually available through the university's Bursars Office and is often published online. In larger universities, there may be several schedules of tuition and fees. For instance, if the university you are considering has both a College of Arts & Sciences and a College of Engineering, each of these may have its own schedule of tuition and fees, and there could be significant differences between each of them. There may also be different schedules depending upon your major. Make certain you are looking at the correct schedule. If need be, pick up the phone and call the Bursar's Office yourself. Do not wait until the last minute to do this. Both the Bursar's Office and the Office of Financial Aid tend to get bombarded with phone calls at the beginning of each semester.

If you will be living on campus your school will be able to provide an exact cost for dormitory expenses. If you will be using the school's meal plan (often a requirement for dormitory living), they will be able to provide you an exact cost for the various meal plans they offer. Schedules that itemize these costs should be available from either the Bursarâ€™s Office or the Housing Office.

The cost of your books is the final factor to take into account. This is often the most difficult expense to judge but most colleges and universities do publish an estimate of the costs. These costs can have significant differences from one school to another. For instance, UCLA currently estimates the cost for books and supplies to be $800 per semester. The University of Texas at Austin estimates the cost to be $375 per semester.

These estimates are only a starting point. Book costs may be significantly different depending upon your major and course load.

It should also be noted that estimated costs are based on the price of new books. Many schools will offer used books for sale at a significant discount. And some schools are now experimenting with book rental programs; also at a significant discount when compared with the price of a new book.

Remember, you will need to fund each and every semester of college, As a result, for a four year college you and your child can end up originating a loan each semester, for a total of eight different loans. All I can tell you, this process does get easier each year.

Next week, in our final article on student loans, we will address key issues for after college and loan repayment options.
Links to other articles in this series:

Part 1: Click Here

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