



BORROWING STRATEGIES

**Make Smart Decisions
When Borrowing Money
to Attend UCSF**

Fall 2018

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Majority of graduate 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 pay the interest on your loans as it accrues while in school?
- ❑ Should you borrow the minimum amount you need to achieve your goals?

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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- ❑ Because payments are based on the amount you owe—your **DEBT**—not on your ability to repay that debt
- ❑ Your monthly payment is equal to the amount required to pay off all the debt (plus interest) in a given period of time

You must make that payment each and every month whether you can afford it or not!

Debt puts you at risk and limits your options, financially

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In other words, it “boxes you into a corner”

- ❑ Puts you at risk of having to miss the payment (e.g., *due to loss of income or unexpected expense*)
 - ❑ ***Missing the payment will damage your credit!***
- ❑ Impacts your ability to make other choices financially (e.g., *changing jobs or taking time off, investing for retirement, buying a house*)
 - ❑ ***The more you owe, the more you must pay each month on your debt leaving less money for other purposes!***

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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- ❑ Payments can be based on your **income** rather than on the **amount of your debt**
 - ❑ *Payments can be equal to less than **10%** of your household's monthly adjusted gross income – and that means you could have more than **90%** of your income for everything else!*
- ❑ Negative amortization is allowed
 - ❑ *Monthly payment can be less than interest that accrues that month thereby providing more flexibility and safety in repayment—this is not allowed with any other form of consumer debt*

As such, federal student loans need not “**box you into a corner financially**” – you have options!

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
 - ❑ **Public Service Loan Forgiveness (PSLF)** – Balance on Direct Loans forgiven after 120 months of qualifying public service—***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**

- **LINEAR** increase over time—*it is NOT being “capitalized” (not being added to the principal balance)--*
“interest is NOT accruing on interest”
- Interest generally accrues as **“SIMPLE”** interest on federal student loans in-school and during repayment

□ **Compound interest**

- **EXPONENTIAL** increase over time—*it is being “capitalized” (added to the principal balance)--*
“interest is accruing on interest”
- Interest is **compounding** (perhaps as often as daily) on investments so value is **GROWING exponentially!**



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So what should you do ...

... when ***“mapping your course”***
financially at UCSF?

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 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 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 **UCSF Financial Aid Office** for more information*

Should you borrow the minimum amount possible?

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YES, but:

- ❑ Borrow only what you **NEED** to achieve your goal(s).
- ❑ 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, transition/relocation to practice site) and until you get your first paycheck as a professional?**

Why borrow the minimum?

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... because when you borrow
loans you are spending your
FUTURE INCOME!

To borrow the minimum ...

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- ❑ “BYOB”
- ❑ “SOS”
- ❑ Consider “opportunity costs”
- ❑ Manage your finances wisely



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Be Strategic!

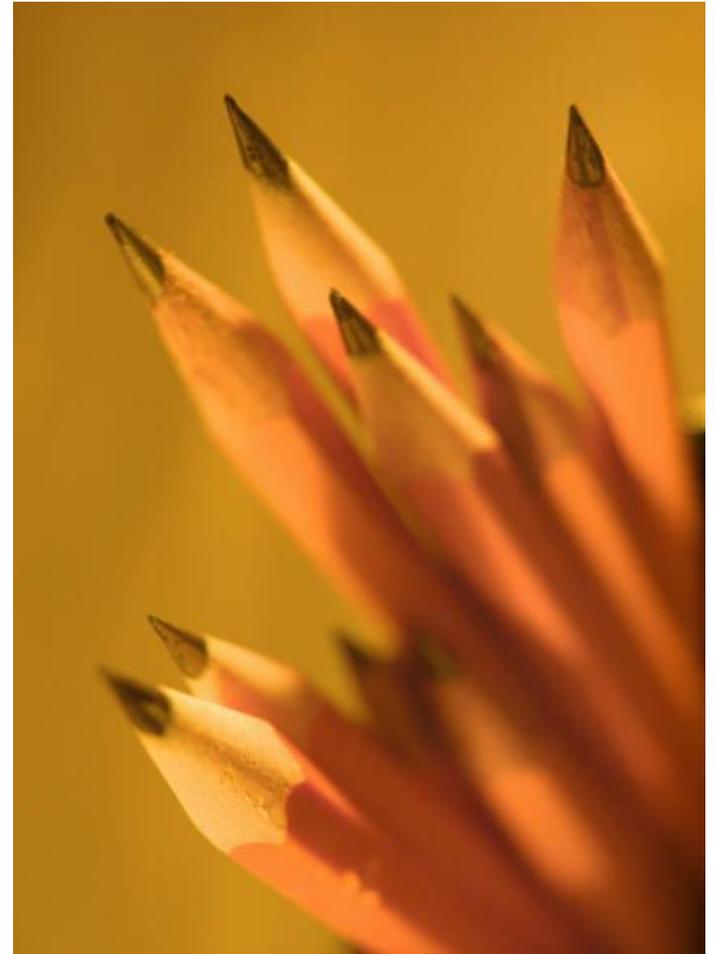
*Plan you borrowing wisely;
don't leave it to chance!*

How did you decide on how much to borrow?

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Did you?:

- Borrow amount indicated on your Financial Aid Award notice?
- Borrow maximum amount possible?
- Estimate your budget and borrow only what you needed?





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Deciding how much to borrow ...

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

What is a budget?

- ❑ **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 Financial Aid Staff
- ❑ 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?

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| 2018-2019 Expenses | “Cost of Attendance” | Your Expenses |
|---|--|---------------|
| Tuition and fees | \$ | \$ |
| Health insurance | \$ | \$ |
| Books and supplies | \$ | \$ |
| Housing (<i>rent, mortgage</i>) | <i>Housing & Utilities/month</i> \$1,814 | \$ |
| Utilities | | \$ |
| Food (<i>groceries, eating out, etc.</i>) | <i>Food/month</i> \$578 | \$ |
| Transportation | <i>Transp./month</i> \$145 | \$ |
| Miscellaneous personal | <i>Misc. Pers./month</i> \$363 | \$ |
| TOTAL | <i>Total L/E per month</i> \$2,900 | \$ |

Other costs to consider ...

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- ❑ Financial aid is only available for the **academic year** and that may be less than 12 months of the **calendar year**—*but you still have expenses EVERY month (including any vacation periods during the summer)!*
- ❑ And what about after you graduate, when will you get your first paycheck once you complete your degree?
- ❑ Will you have relocation expenses and/or other costs?

How will you pay for these expenses?

- ❑ *If you have to borrow money for these costs—it likely is best to use funding that does not BOX you into a corner, i.e., federal student loans.*

So, plan your budget (and borrowing) carefully!

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. ***AND, don't overlook the reality that you may need funds for those "other costs!"***

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Saving on Spending

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 future uses such as your relocation costs*—consider the “**opportunity costs**”.

Reducing Your Borrowing

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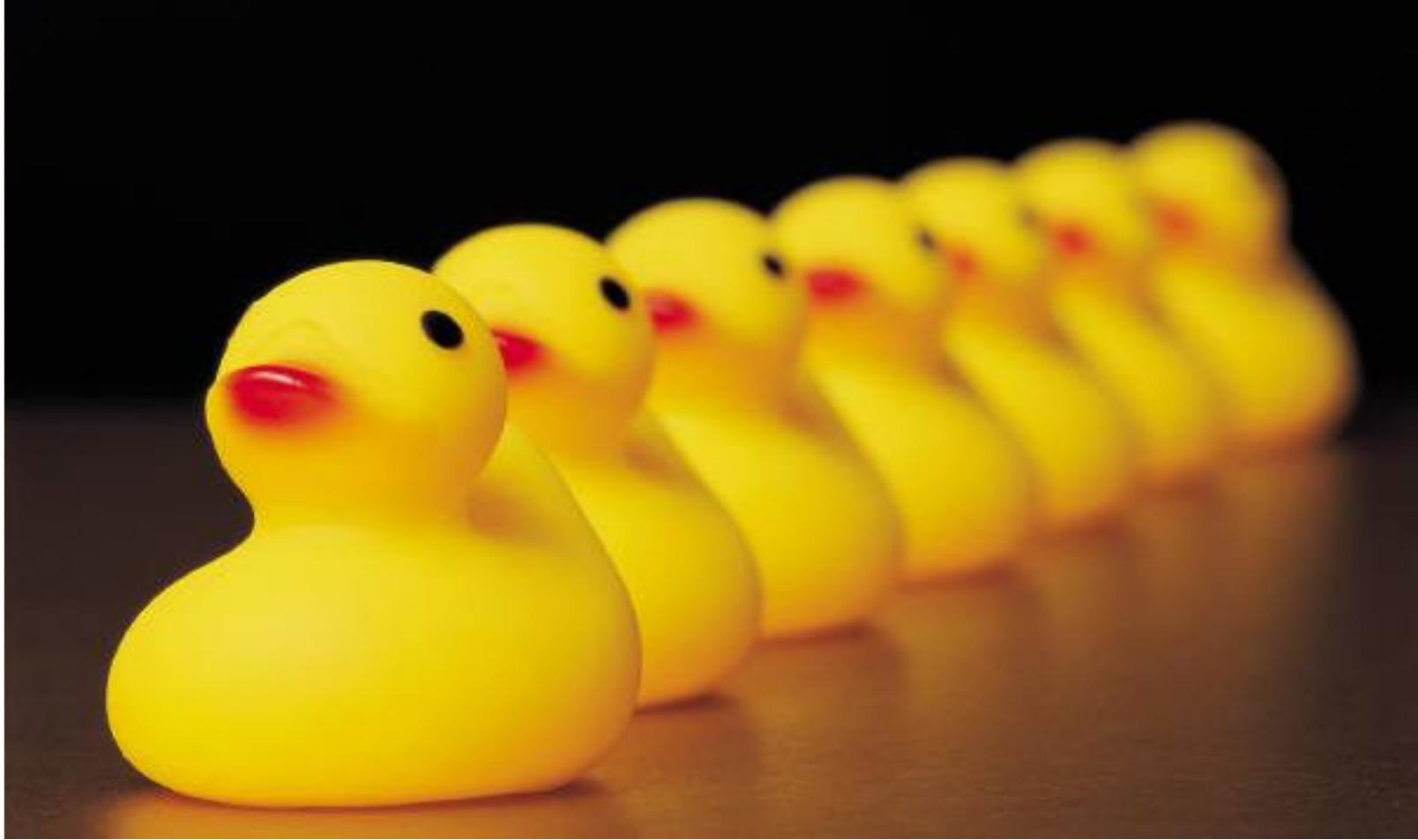
- ❑ Reduce your spending
- ❑ Apply for private scholarships
- ❑ Ask for monetary gifts from family
- ❑ Avoid credit card debt
- ❑ Have free fun

FREE Fun!

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What's fun, free (and legal) in SF?





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Managing Your Finances

Get your financial “ducks in a row”!

Managing Your Finances in School

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

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](https://www.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

Developing and Maintaining Good Credit

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Some Useful Tips:

- ❑ Pay all your bills on time
- ❑ Notify creditors of changes in address, etc. .
- ❑ Limit use of credit cards for credit, and when used, pay credit card bill in full each month
- ❑ Minimize debt – especially from credit cards
- ❑ Review credit reports annually for accuracy

GOLD CARD

INTERNATIONAL CREDIT

6179 500 0574 692

317

EXP 01/2015



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Use credit cards for convenience ...

... NOT for credit!

Know Your Credit Card ABC's

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- ❑ **A** credit card is helpful for emergencies, but they rarely happen at the mall!
- ❑ **B**eware of using credit cards for cash advances; it can be very costly!
- ❑ **C**redit card debt can lower your credit score; keep your utilization as low as possible!
- ❑ **D**on't charge more than you can afford to pay each month!



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Managing Your Loans

Start now! Take control! Plan ahead!

Managing Your Loans

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- ❑ 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

“Financial Aid Review”—A Useful Resource

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To access, enter your FSA ID:

- ❑ Username
- ❑ Password

Select the “**Financial Aid Review**” option to view a summary and details of your federal student loans regulated by the U.S.

Department of Education

(HPLS, LDS, NSL and PCL loans regulated by HHS will not appear on NSLDS.ed.gov)



Financial Aid Review

View your federal loans, grants, and aid overpayments.

Enrollment

View your current enrollment, or let NSLDS know about future enrollment.

Subsidized Usage

View the status of your loans that are subject to subsidized usage limits.

Your Contact Information

View or add your contact information.

Exit Counseling

Complete exit counseling for your TEACH grant.

Authorization

Authorize a loan servicer to view your information on the NSLDS Professional Access site.

Glossary of Terms

Find definitions of the terms used on this site.

Estimate Your Monthly Payments

“Repayment Estimator” at: **StudentLoans.gov**

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To “Log In” enter your FSA ID:

- Username
- Password

Then select the “Repayment Estimator” from the tools and calculators that are available on your Home Page.

(Estimates are for Direct/FFEL loans only)

The image shows the navigation menu of the StudentLoans.gov website. It consists of four main categories, each with a green circular icon and a dropdown arrow: "Undergraduate Students" (person icon), "Graduate/Professional Students" (graduation cap icon), "Parent Borrowers" (family icon), and "Repayment & Consolidation" (calculator icon). Below the "Undergraduate Students" category, there is a text block: "The first step in getting student aid is completing the Free Application for Federal Student Aid (FAFSA®) at www.FAFSA.gov. You must do this every year." Below the "Graduate/Professional Students" category, there is a list of links: "Complete Entrance Counseling", "Complete Loan Agreement for a Subsidized/Unsubsidized Loan (MPN)", "Complete Financial Awareness Counseling", "Complete Exit Counseling", "Use the Repayment Estimator", "Complete TEACH Grant Counseling", and "Complete TEACH Grant Agreement to Serve". To the right of this list is a video thumbnail with a play button icon and the text "How To Create An FSA ID".

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Final Comments

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



For more information ...

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Federal student loan repayment:

- ❑ *StudentAid.gov*
- ❑ *StudentLoans.gov*

Personal finance:

- ❑ *Bankrate.com*
- ❑ *Kiplinger.com*
- ❑ *Money.cnn.com*

Budgeting:

- ❑ *Mint.com*

Credit Reports/Scores

- ❑ *Consumer.ftc.gov*
- ❑ *CreditKarma.com*

TAKE CONTROL OF YOUR FINANCES

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

