



Make A Plan **Before** You Borrow For College



Each Fall, millions of students begin the process of applying for college. Students and their families make the time to research what types of schools to consider, which schools to visit and tour and all the specific credentials their student needs to gain acceptance to the school of their choice.

But something is often missing from this pivotal college planning period – **financial planning for college**. Parents and advisors must do more to prepare students for the cost of higher education and the financial commitment required when taking out student loans

It's vitally important that students develop a specific plan for how they will pay for each year of their degree before they borrow. Following is additional information students and families should consider to more effectively plan to pay for college.

CALCULATE: What's the Total Amount You'll Need to Borrow?

The cost of college has tripled over the past 20 years – currently averaging \$35,000 per year per student. That means, once the student completes a 4-year degree, their education can cost \$140,000 on average. Tuition and expenses vary widely among institutions of higher education; so be sure to calculate the total amount needed for each school you're considering.

EVERY STUDENT SHOULD KNOW:



- What, if any, amount has already been saved to pay for college?
- What is the total amount you will need to pay for all years of college?
- Will the student or their parents be taking out student loans?
- What is the interest rate on the loans they will use to borrow for college?
- An approximation of the monthly student loan payment amount they'll be required to begin paying after graduation (use a [loan estimator](#) tool).

EXPLORE: Do You Qualify For Financial Aid, Scholarships or Grants?

Most students pay for college using a combination of savings, financial aid and student loans. But many assume they don't qualify for the types of financial aid that the student doesn't have to pay back – grants and scholarships.

Always fill out the Free Application for Federal Student Aid (FAFSA) as soon as it's available and for each year of school. Financial aid awards are just for one year. And, particular scholarships or grants may not be offered every year, so available financial aid is likely to be different each year of school. Also, available federal financial aid is first come, first served, so go to [studentaid.gov](#) each year to apply for these helpful school funding opportunities.

RESEARCH: Will Your Chosen School or Degree Provide Enough Earning Power?

Some college degrees and career paths deliver much more income than others. Thoroughly discuss your student's earnings expectations following graduation to clearly understand what they can expect to earn and the Return-On-Investment (ROI) of their chosen degree.

For example, according to a recent Thirdway report, 65% of 4-year bachelor programs allow graduates to recoup the cost of their degree within 10 years.

Research the average starting salary for the intended career path and calculate how much income the graduate can expect to have in hand monthly after taxes. A difficult discussion might be necessary to determine whether the cost of the degree makes sense for the student's future financial stability, or if a different degree, or school, might help them secure a brighter financial future.

Time Needed to Recover The Cost of A Degree					
Years	0-5	5-10	10-15	20+	No ROI
Bachelor's Degree-Granting	41%	24%	14%	11%	10%
Associate's Degree-Granting	64%	7%	4%	4%	21%
Certificate-Granting	48%	4%	2%	3%	42%

Source: <https://www.thirdway.org/report/which-college-programs-give-students-the-best-bang-for-their-buck>

EVALUATE: What is the Debt-to-Income Ratio for Your Degree or Career Path?

When considering the skillset and interests of the student to inform the selection of a particular degree or career path it's very important to research and understand the [debt-to-income ratio](#) for your expected student debt. The debt-to-income ratio is the percent of gross monthly income that will be used to repay your student loan debt.

Experts recommend a student loan debt-to-income ratio under 10%, with a stretch limit of 15%, if you do not have many other types of loans. A good rule of thumb is not to take on more student loan debt than the amount of your expected annual income.

If your calculated debt to income ratio is too high, it might make more financial sense for a student to instead select a public or in-state college to reduce the overall cost of the degree.

DECIDE: Will You Commit to Completing Your Degree?

Students who drop out of college are 4 times more likely to default on their student loans and damage their credit score. A loan is a commitment. If you borrow for college, you have to pay back the amount you borrowed, even if you don't finish your degree.

When a student leaves school or drops below part-time, the school will alert the lender of the change in enrollment status. With Federal direct subsidized or direct unsubsidized loans, there is a 6-month grace period before repayment begins. For Parent PLUS borrowers, repayment begins after the loan is disbursed, but a 6-month deferment can be requested. Loan repayment policies for private student loans vary, so ensure you understand when repayment begins.



Bachelors Degree Programs with The Best Return on Investment:

- Registered Nursing, Nursing Administration, Nursing Research and Clinical Nursing
- Electrical, Electronics & Communications Engineering
- Industrial Engineering
- Aerospace, Aeronautical & Astronautical Engineering
- Dental Support Services and Allied Professions
- Construction Management
- Engineering, General
- Construction Engineering Technologies
- Engineering Technology
- Petroleum Engineering
- Quality Control & Safety Technologies/Technicians



Bachelors Degree Programs with The Lowest Return on Investment:

- Drama/Theater Arts & Stagecraft
- Dance
- Zoology/Animal Biology
- Film/Video & Photographic Arts
- Religion/Religious Studies
- Ecology, Evolution, Systematics & Population Biology
- Anthropology
- Fine & Studio Arts
- Music

Source: <https://www.thirdway.org/report/which-college-programs-give-students-the-best-bang-for-their-buck>

THE BOTTOM LINE:

Take the time to truly understand and make a detailed plan for the financial commitments needed to pay for your higher education. Student loans are a significant commitment, but if you make smart, well-informed decisions they can be a helpful catalyst to a bright future.