College Loans

June 16, 2023

Paying for college used to be easy. In 1970, the average yearly cost of college tuition and fees at a public four-year university was $358; private universities cost an average of $1,706 per year. Add in room and board, and the all-in cost was $1,238 and $2,327, respectively.

Today seems like a chump change. The average tuition cost at public four-year institutions is just under $10,000; just under $17,000, on average, for private schools. Add in room and board at a dormitory and a ticket to the school's array of cafeterias, and you're looking at $33,700. And there is no sign that the cost will be any lower in the future; indeed, in the decade from 2010 to 2020, the total cost of college/university attendance went up between 40% and 44%. In the previous decade, the increase was 136.5%.

What to do? You save, and save, and save, and then borrow. But borrowing requires you to understand the options, which can be a bit complicated.

The easiest distinction among college loans is between subsidized and unsubsidized loans. To get a subsidized loan to pay college expenses, the parents or students would fill out the Free Application for Financial Student Aid (FAFSA) form, detailing the income and assets they have available to pay college expenses. The school will then determine the amount of a subsidized loan that the student's family can take out.

The other option is a private loan, typically a Stafford loan. These are not based on financial need, but the application process is similar, filling out a FASFA form. The size of the unsubsidized loan would be determined by a discussion between the borrower and the lender.

The biggest difference between the two is that when you take out a subsidized loan, the U.S. Department of Education will pay the interest during the time the student is in school, and for the first six months after graduation. The student may also have the option to defer the loan for a period of time thereafter. So, if the loan amount is the maximum allowable ($3,500 in the first year; $4,500 in the second year, $5,500 in years three and four), when the student graduates, the total loan amount will still be $19,000 upon graduation.

With unsubsidized (Stafford) loans, the students are responsible for paying the interest while in school. If the student chooses not to pay the interest, it will accrue, which will raise the loan amount and the monthly payments whenever they begin. The current borrowing limitation is $31,000 for undergraduate dependents; $57,500 for undergraduate independent students.

Notice that the borrowing limits don't add up to the total amount that average colleges are costing these days. But hopefully, most families have been saving up for this entirely predictable expense, possibly through a state-sponsored 529 plan. If not, other options include taking out a home equity line of credit on the family home or dipping into retirement savings. Or the student could get a job during the school year that would pay some of the bills. If these are the choices, it might be more beneficial for the student to get job experience than for the family to endanger its ability to retire some years down the road.

Sources:

https://educationdata.org/average-cost-of-college-by-year

https://www.advisorperspectives.com/articles/2023/05/12/subsidized-and-unsubsidized-loans

If you have any questions about this article or want to discuss your family finances, investment portfolio, or financial planning advice, please call on me anytime at my number (215) 325-1595 or you can click here to schedule a meeting.

Please feel free to forward this article and offer to anyone you know who might have financial questions or need some unbiased advice. Most financial advice is sales advice. In stark contrast, we are fee-only (non-commissioned) fiduciary advisors. We just provide truthful, unbiased advice to our clients.

Jeffrey Broadhurst
MBA, CFA, CFP
Broadhurst Financial Advisors, Inc.

*****PRIVACY NOTICE*****

This message is intended only for the individual or entity to which it is addressed and may contain information that is privileged, confidential, or exempt from disclosure under applicable federal or state law. You are hereby notified that any dissemination, distribution, or copying of this communication, except in accordance with its intended purpose, is strictly prohibited.

Our physical and mail address:
1911 West Point Pike
P.O. Box 301
West Point, PA 19486-0301

Contact us:
Phone: (215) 325-1595
Email: jeff@broadhurstfinancial.com