



BORROWING STRATEGIES

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

August 2016

Jeffrey Hanson
Education Services

Boston University School of Law

Majority of law students ...

2



**... now graduate with an
EDUCATIONAL MORTGAGE**

Essentially, you're financing an important investment in yourself

3

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 ...

4

- ❑ 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 law 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.



5

Normally with debt ...

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

Why are you in that “corner”?

6

- ❑ Because, payments are based on the amount you owe
 - ❑ You must make the minimum payment each and every month whether you can afford it or not
- ❑ As such, having that debt limits your options financially – i.e., “*boxes you into that 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 needs/uses**



7

With federal student loans...

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

In essence,
federal student loans offer ...

8

Choice

Flexibility

Safety

How are federal student loans different?

9

- ❑ 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 ...

10

- ❑ 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*



11

What is the “cost” of debt?

Making an informed decision requires understanding the costs of that decision

Debt always has two costs ...

12

□ Direct Cost

- Interest
- Fees

□ Opportunity Cost

- Value of what you are forgoing to repay the debt

“Opportunity Cost”

13

- ❑ It's about trade-offs
- ❑ You have scarce resources
 - ❑ *Time*
 - ❑ *Money*
- ❑ Ask yourself:
 - ❑ *“Am I putting my time/my money to its ‘highest’ and ‘best’ use?”*



14

So what should you do ...

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

Should you borrow private loans?

15

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?

16

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*) only 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!

17

If you return loan funds within 120 days of disbursement:

- ❑ Total amount owed is reduced
- ❑ Interest and fees charged on loan amount returned are reversed

Contact the BU School of Law financial aid staff for more information

Should you borrow the minimum amount possible?

18

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)
 - **Bar prep course**
 - **Living expenses while you prepare for/take the Bar Exam**

Why borrow the minimum?

19



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



20

Be Strategic!

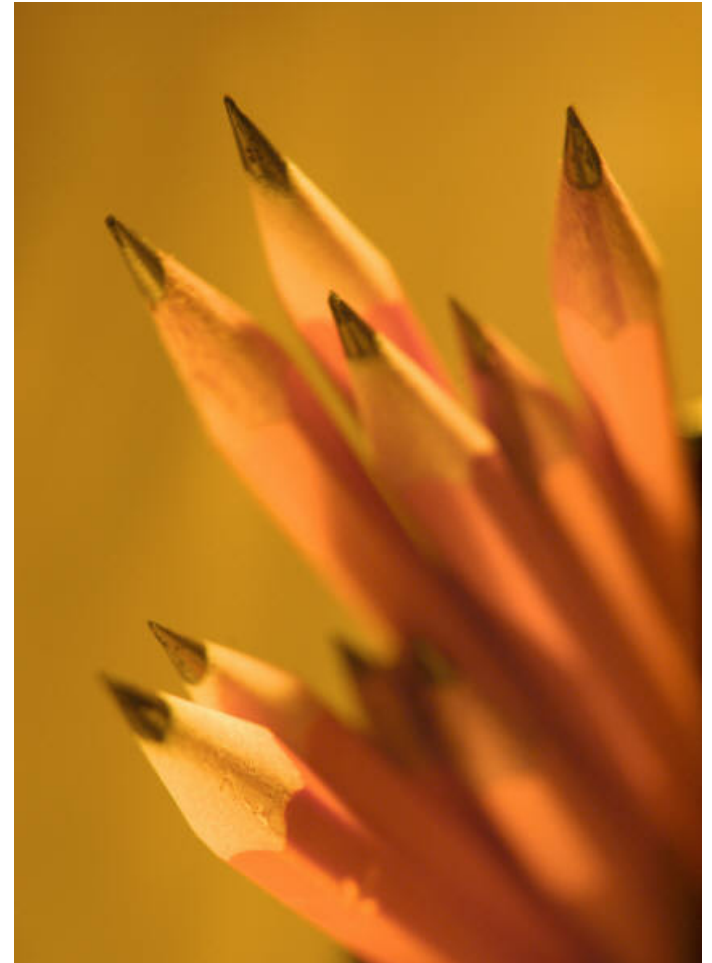
**Plan you borrowing wisely;
*don't leave it to chance!***

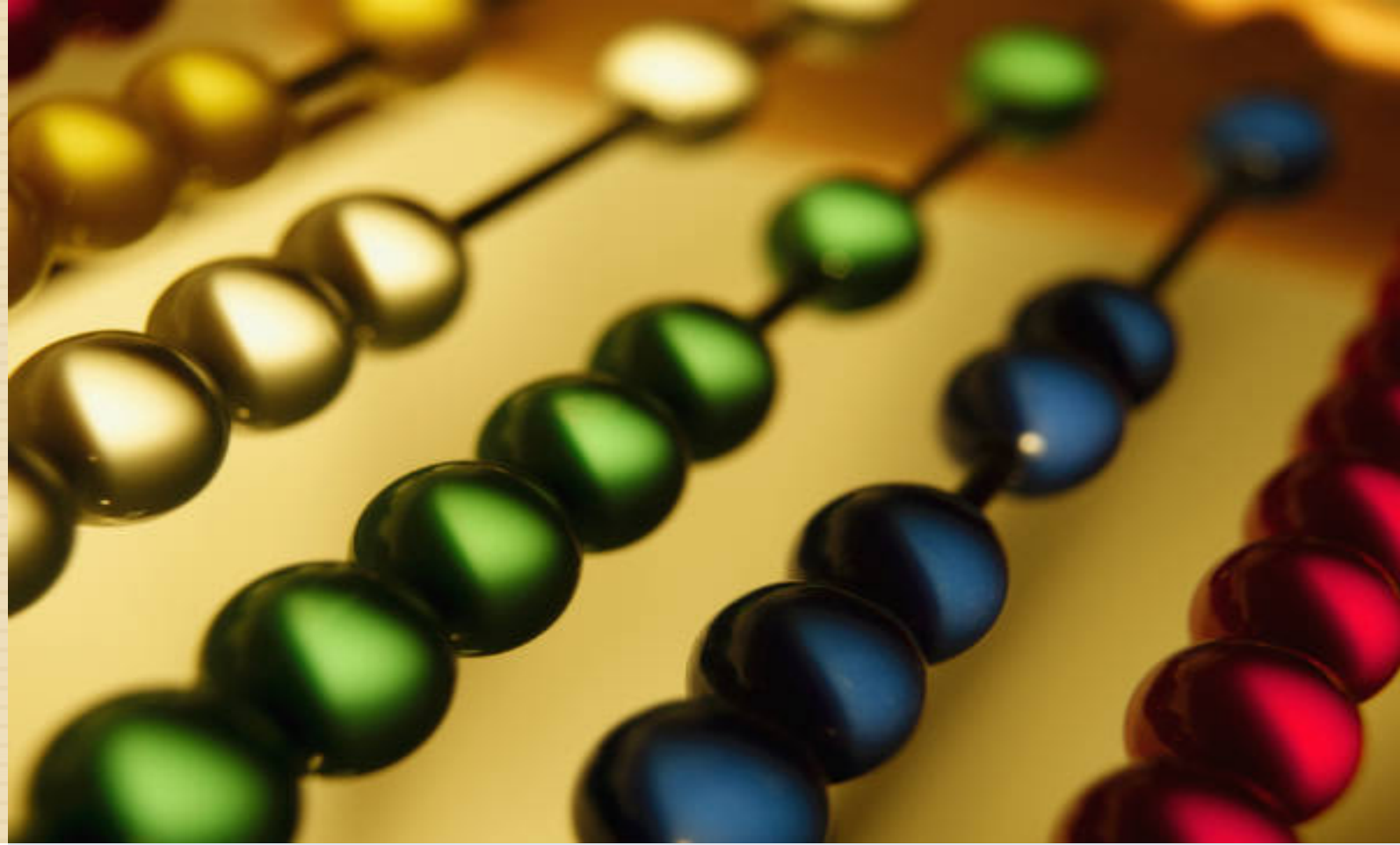
How did you decide on how much to borrow?

21

Did you?:

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





22

Deciding how much to borrow ...

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

What is your budget?

23



Is it:

- ❑ Cost of Attendance (COA)?
- ❑ Your resources vs. your expenses?
- ❑ A spending plan?

Cost of Attendance (COA)

“Student Expense Budget”

24

- ❑ 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

“Building Your Own Budget”

25

2016-2017 Expenses (9 months)	“COA”	Your Expenses
Tuition	\$50,000	\$
Fees	\$1,210	\$
Books and supplies	\$1,462	\$
Housing <i>(rent, mortgage)</i>	\$13,050 <i>(\$1,450/month)</i>	\$
Utilities <i>(electricity, phone, etc.)</i>		\$
Food <i>(groceries, eating out, etc.)</i>		\$
Transportation	\$1,120 <i>(\$124/month)</i>	\$
Miscellaneous personal <i>[clothing, entertainment, personal care (haircuts, cosmetics, etc.) and other miscellaneous personal expenses]</i>	\$3,050 <i>(\$339/month)</i>	\$
TOTAL <i>(includes \$220 in loan fees)</i>	\$70,112 <i>(L/E= \$1,913/month)</i>	\$

"The 39-month Budget"

Other costs to consider ...

- ❑ Bar results typically are known about 39 months after you begin law school
- ❑ 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***

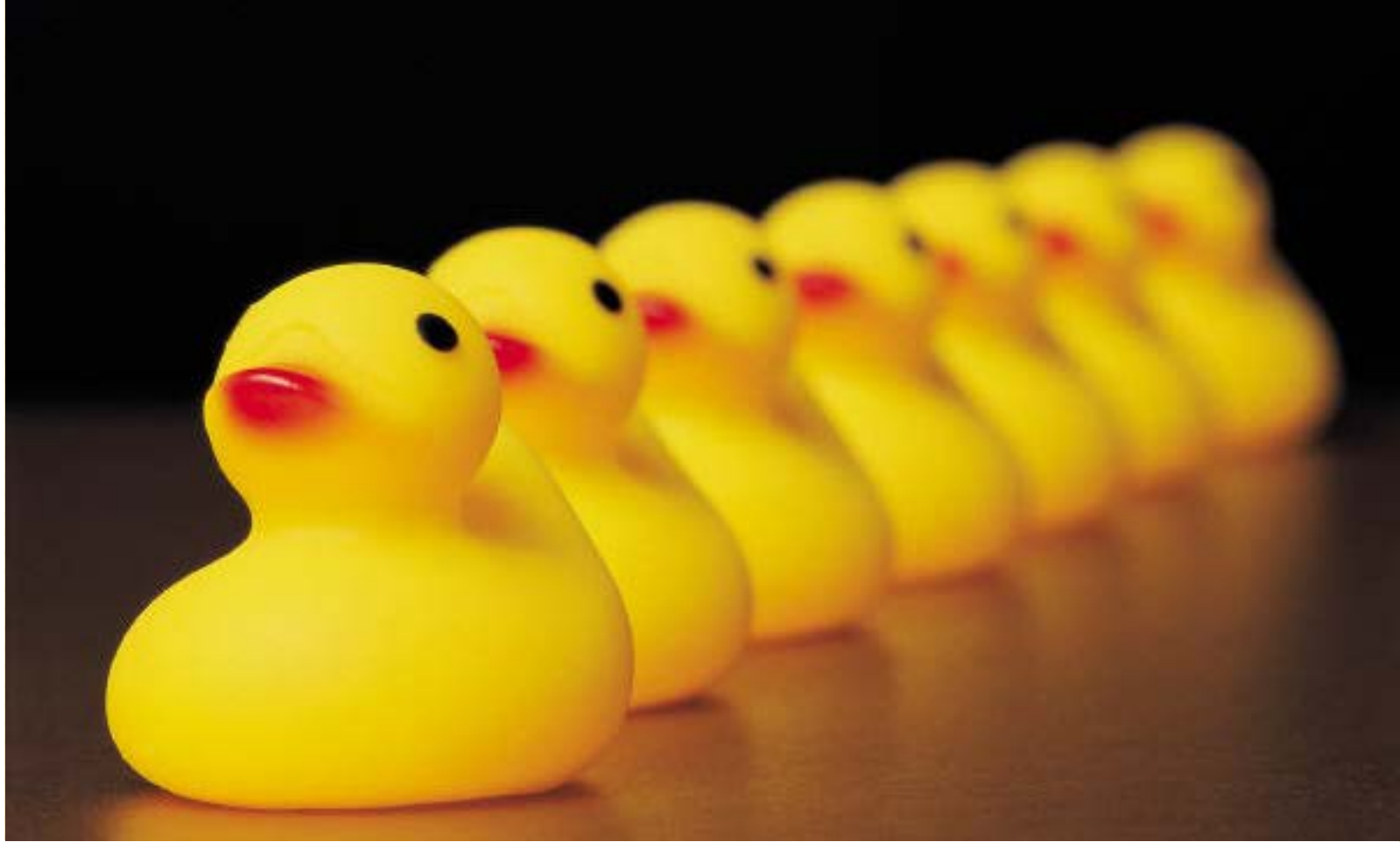
Spending is about CHOICES

27



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 Bar Exam costs***—consider the “opportunity costs”.



28

Managing Your Finances

Get your financial “ducks in a row”!

Managing Your Finances in Law School

29

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

Don't run out of funds!

30

- ❑ 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



31

Managing Your Loans

Start now! Take control! Plan ahead!

Managing Your Loans

32

- ❑ 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

33

Final Comments

A "SMART" Strategy

Keys to Success

34

- ❑ 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 ...

35



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!*

