Transcript

How To Finance A Return To College

Returning to school can be one of the best decisions you can make for your future. A degree could help you find new career opportunities and even higher pay. But one of the biggest challenges is figuring out how to cover the cost. This can be difficult if you're taking time out from working a job in order to study.

But there are many ways to help you finance your education expenses. There are scholarships, grants, and work study programs you may be eligible for, and some employers offer tuition assistance programs. If you need additional funding after looking into these options, there are also a variety of federal and private loans to consider.

The first step to finding out what funding options are out there for you is to fill out the FAFSA—or the Free Application for Federal Student Aid. You can find the application online at fafsa.ed.gov.

We look at the FAFSA and how it works in another video.

After you've filed your FAFSA, the school you're planning to attend will send you an award letter that will include your federal financial aid package as long as you listed that school on your FAFSA. This will likely include a mix of different ways to fund your educational expenses. It can include grants, federal work study programs, and more commonly, several kinds of federal loans.

Now, you may be wondering, how does your school figure out how much you can receive? Well, this is based on a number of factors. The school estimates the cost of attendance—basically the cost of tuition and living expenses.

And, using the information on your FAFSA, they figure out your expected family contribution—that's the amount your school expects that you or your family could pay towards your education. By subtracting your expected family contribution from the cost of attendance, they figure out your "financial need."

Your financial need helps determine how much you can receive in certain types of federal loans. So let's take a look at those loans now.

The most common federal loans are Direct Subsidized and Unsubsidized loans, [pause] PLUS loans, [pause] and Perkins loans. Later, we'll also look at private loans, which are offered by private lenders, like a bank or other financial institution.

So Direct loans come in two types: subsidized and unsubsidized. Subsidized loans are offered only to undergraduate students and are based on financial need. Typically these loans have lower interest rates than unsubsidized loans. And because the loan is subsidized by the government, the government will pay your interest while you're in school, and potentially at other times throughout the life of your loan.

Unsubsidized Direct loans are available to undergraduate and graduate students and aren't based on your financial need. However, these loans usually have higher interest rates than subsidized loans and you'll be responsible for paying the interest that accrues on the loan- from the moment you take out the loan - including the time you're in school.

There are also PLUS loans. There are two types of PLUS loans—the Parent PLUS loan, which is a loan that can be taken out by an undergraduate student's parents to help pay for their child's studies and a Graduate PLUS loan, which is a loan for graduate and professional students.

There are fewer limits to the amount you can receive for a PLUS loan—you can borrow as much as the cost of attending your school minus other financial aid you might be getting. PLUS loans often carry higher interest rates and more restrictive credit requirements than Direct subsidized and unsubsidized loans. And interest on these loans begins to accrue right from the time you take out the loan.

Perkins loans are a little bit different. Perkins loans are low-interest loans that are only offered by schools that participate in the Perkins program. They’re given to undergraduate and graduate students who typically need more financial help than most students. The Perkins loan program is a federal program, however the loans are actually given out by your school and interest doesn’t start accruing on the loan until your repayment period starts. The amount of money you can get if you qualify for the program is based on how much money your school has available for the program and how much money you’re receiving from other loans.

You may qualify for a few of these loans in your financial aid package. When added together, they could come out to enough money to cover your costs. However, if you find you need more financial help, there are also private student loans to think about.

Private student loans are offered by private lenders—that is, not the federal government. The amount you can qualify for and the terms of the loan—your interest rate and the time you have to re-pay--will be determined by things like your credit score, and your ability or the ability of a co-signer to repay the loan rather than your FAFSA information. With private loans, you may pay a higher interest rate than you would with federal loans, and you might not get as many repayment options as you can with a federal loan, like income-based repayment, for instance.

Keep in mind you may be offered more money in your financial aid award package than you actually need for the bare essentials. While it might be tempting to take that extra money, loans aren’t free money—you’ll have to pay interest on what you borrow and you’ll need to start re-paying your loans shortly after you graduate in most cases.

It can be hard to understand what kind of impact the amount of money you take out in loans will have on your finances later on, so you may want to look at what your monthly repayment plan will be after you graduate. You can use the loan repayment calculators at studentaid.ed.gov or ask someone in your school’s financial aid office to help you. For instance, if your monthly loan repayment comes out to $450 and you expect to make around $40,000 a year, before taxes, when you leave school, you might be putting too much of a strain on your future budget.

If you’d like to learn more about how subsidized and unsubsidized loans work, and a few different repayment options for student loans, we look at these subjects in other videos.

Going back to school can be one of the best investments you can make. Knowing your options for covering your costs can help you make the best decisions for your finances--now and after you graduate.