



# The 1-2-3 approach to paying for college

Paying for college doesn't have to be an overwhelming task. With the right approach, you and your family can come up with a workable, responsible plan—like the 1-2-3 approach to paying for college.

## Step 1: Start with money you won't have to pay back

Begin with money you and your family have saved for college and include any income that you can put toward college. Maximize "free" money you don't have to pay back with scholarships and grants. Then consider work-study.

- **Savings:** Do you or your parents have a dedicated college savings account where money has been put aside for college? Maybe your family has been saving for college with a 529 savings plan, or maybe your grandparents have a college fund they set up for you.
- **Scholarships:** Scholarships are offered by colleges and universities, federal and state governments, religious groups, professional associations, employers, and other organizations and companies. There are millions of scholarships available—you just have to look! They can be need-based, merit-based, or based on your hobbies and interests. You don't have to be number one in your class or an all-star athlete to get free money for college. But you need to do the legwork to find scholarships and apply. You can search for free with Sallie Mae® Scholarship Search.
- **Grants:** Grants for college are typically need-based. They're given out by both federal and state governments, and by individual colleges. You can apply for grants by completing your Free Application for Federal Student Aid (FAFSA). Many grants are awarded on a first-come, first-served basis, so complete your FAFSA early.
- **Work-study:** Work-study programs are offered by federal and state governments, as well as colleges. They offer part-time jobs that let students earn money to help pay education expenses. Be sure to submit the FAFSA to be considered for work-study.

## Step 2: Explore federal student loan options

Apply by completing the Free Application for Federal Student Aid. A federal student loan comes from the federal government. Remember, you'll have to pay back the money you borrow, plus interest—whether you graduate or not. Federal student loans are legal agreements, so be sure you understand the terms of the loan before signing the promissory note.

### Federal student loans can be subsidized or unsubsidized:

- **Direct Subsidized Loans:** These loans are based on what's called "financial need." These need-based loans are made to a student (not parents), and the federal government disburses (sends) the funds directly to the school. Subsidized loans do not accrue (grow) interest while the student is in school at least half-time or during deferment periods (when payment is postponed).
- **Direct Unsubsidized Loans:** These loans are not need-based and are also made to the student. Interest on these loans begins accruing as soon as the loan is disbursed, and the borrower is responsible for paying back the interest.

### Federal student loans provide flexibility in several areas:

- Direct Subsidized Loans and Direct Unsubsidized Loans don't require a credit check of the borrower.
- Federal student loans offer income-driven repayment plans, where qualifying borrowers repay their loans based on the borrower's salary after college.
- Federal student loans generally allow borrowers to change their repayment plan even after they've taken out the loan.

For these reasons, students should consider federal student loans before looking at private student loans to fund the remaining gap needed to pay for college.

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## Step 3: Consider a responsible private student loan

After determining what free money is available and what you might be able to cover with a federal student loan, you may still have a funding gap that you need to fill. That's where private student loans come in. These loans are available through financial companies and credit unions. Like federal student loans, private student loans need to be paid back with interest.

Private student loans usually offer the choice of a fixed or variable interest rate. Fixed rates stay the same, giving you predictable monthly payments. Variable rates may go up or down due to an increase or decrease to the loan's index.

Private student loans may offer different repayment plans—including options that allow you to make interest-only or fixed payments while you're in school. These in-school payments could lower your total student loan cost.

Private student loans are credit-based, which means you need a good credit score to qualify for one. Since students may not have much credit history yet, they may need a cosigner to qualify for a private student loan. A cosigner can be any responsible adult who has had time to build up good credit. It's important to remember a cosigner is someone who signs for a loan along with you. By cosigning, this individual is entering into a legally binding

agreement stating that they're willing to share the responsibility of repaying the loan on time and in full. You can apply for private student loans when you need to, as long as you plan enough time for the lender to process your loan and disburse money to the school. However, if you're applying for a full year, your lender may disburse the funds to your school each semester rather than all at once, since interest starts to accrue when the funds are disbursed.

If you're not sure what types of loans you may need to borrow, submit your FAFSA first. You'll receive a financial aid offer from any colleges that you listed on your FAFSA and that have accepted you. The school will use your FAFSA to calculate your financial aid. After you learn how much financial aid you're being offered, you'll know how much you may need to borrow to fill any remaining gap.

### Borrow responsibly

We encourage students and families to start with savings, grants, scholarships, and federal student loans to pay for college. Students and families should evaluate all anticipated monthly loan payments, and how much the student expects to earn in the future, before considering a private student loan.

## Resources to help you along the way

### You could win \$1,000 for college

When you register for Sallie Mae's college planning tools you can enter for a chance to win the \$1,000 sweepstakes.<sup>1</sup> One winner is drawn each month.

### Sallie Mae® Scholarship Search

Provides free access to more than 5 million college scholarships worth up to \$24 billion. Get matched to scholarships that fit your skills, activities and interests. It's all based on the profile you fill out when you register.

[SallieMae.com/SS](https://SallieMae.com/SS)

### Sallie Mae College Planning Calculator<sup>SM</sup>

Create a customized financial plan to pay for college based on your own situation. Search for college costs and factor savings, scholarships, grants, and loans into your plan. This is a good place to start—and something you can update and edit throughout the process.

[SallieMae.com/CPCTool](https://SallieMae.com/CPCTool)

### Other options

- **Federal Direct PLUS Loans** (Parent Loan for Undergraduate Students) are slightly different from the other federal student loans. PLUS loans can be taken out by parents to help pay for their child's college education, or by graduate and professional degree students.
- **Private parent loans** are offered by some lenders. A parent or other creditworthy individual is the borrower for these loans, which may offer competitive interest rates and no origination fees.
- **Tuition payment plans** let you pay tuition in installments; there may be a fee for the service. Check with your school to see if they offer this type of plan.

## Learn more at [SallieMae.com/CollegePlanning](https://SallieMae.com/CollegePlanning)

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