Suze Orman

Get Smart

With students across the country in the midst of applying for financial aid, *Suze* offers a few lessons to a prospective scholar, a college junior, and the mother of a recent graduate moving back home.

Q I'm a single mom of four kids ages 15 to 21, and I'm thinking about going back to school. Right now I cut hair at a barbershop and work part-time at a museum; neither job includes health benefits or a retirement plan. My dream is to become a sonographer, which would require attending an 18-month training program that costs $25,000. I have enough emergency savings to cover my living expenses while I take classes, have only four years left on my home mortgage, and also receive child support. Can I afford to take this step?

Suze: Mom, you are making me smile. I love that you're working toward a dream, not just a job. And I am beyond thrilled that you're asking tough financial questions before you take on any debt—that's how you stay out of trouble down the line. Based on what you've said, I think we can make your wish come true.

Mark Kantrowitz, publisher of the Web site finaid .org, advises prospective students to avoid borrowing an amount greater than they expect to take home in their first year on the job. According to the Bureau of Labor Statistics, the median salary for a sonographer is $65,210—more than double the amount you'll need. Keep in mind, though, that this number includes wages for all sonographers, not just rookies. And I want you to do some additional research to find out what these medical professionals make in your area.

Your next step is to form a borrowing strategy. There are two lending options for higher education: federal loans and money offered by private institutions. Always exhaust federal funds first; they are a better deal in terms of both cost (they have fixed interest rates) and repayment options (these vary based on factors like your income and the amount of time you plan to spend paying back your loan). Since you aren't a dependent of someone else, under the Stafford loan program for independent students you can borrow up to $9,500 for your first academic year and up to $10,500 for the following year at a maximum interest rate of 6.8 percent. (Check with your school to find out how these limits apply to an 18-month program.) These funds should meet most of your tuition expenses, but don't hesitate to make yourself a pest at your school's financial aid office. Find out what you need to do to become a candidate for additional scholarship or work-study opportunities. If you still can't cover your costs, I'd love for you to take care of your remaining needs by continuing to cut hair part-time while you take classes. Or perhaps it makes sense to delay school for one more year and spend that time saving money.

Q I'm a junior in college, where my tuition after financial aid is $3,000 a semester. When I started school, I took out private loans, but now I've saved enough from working part-time and during the summer to cover the rest of my costs. Should I stop borrowing and pay my own way through graduation?

Suze: Pay as you go is always the best approach, so if you can avoid debt, you should. I am concerned, however, that you financed *(continued on page 48)*

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your first two years of school with private student loans, which typically have variable interest rates. When rates go up—that's a matter of when, not if—the monthly cost of the loan will rise as well. My guess is that you were charged an interest rate based in part on your FICO credit score; if it was low (say, less than 700), you could be paying a rate of more than 10 percent. The last thing you want is for your borrowing costs to continue to climb just as you launch your career.

Consider this strategy, which involves taking on debt in a smarter way: Use federal Stafford loans to cover your remaining tuition costs. The borrowing limits for dependent students are $7,500 in both your junior and senior years, which is more than enough to take care of your needs. I want you to use the funds you currently have—and the money you'll continue to earn from jobs over the next two years—to start paying off your private student loans immediately. The faster you settle those obligations, the more interest you'll save, and the better off you'll be.

Q My son is a recent college graduate. He's moving back in with me, and I'm thinking of setting some financial ground rules. Since he doesn't have a job yet, it seems unfair to ask him for much until he gets on his feet. Do you have any advice?

Suze: Do I! For starters, ground rules are a must, not a maybe. Establishing expectations will help you navigate this tricky juncture in your relationship—and his life—with a minimum amount of stress.

I realize how hard it is for today's graduates to find meaningful work, so I understand your desire to allow your son a few months to search for his ideal job. But in return for staying in your home, he needs to earn his keep by taking on household chores like cooking, cleaning, shopping, or doing laundry—whatever will help you.

Ideally, though, he should work part-time while hunting for a full-time job. When he starts bringing home regular wages, I want you to agree on his monthly contribution to the family operating expenses. It doesn't matter if you need the money or not; these installments will help your son feel like an adult and familiarize him with the routine of bill paying. Maybe he gives you 15 to 20 percent of his take-home pay. If you don't plan to use that money to make up for the additional costs associated with housing him, quietly open a savings account (let's call it his breakout fund) and deposit his payments there. When he moves out, he can use the money to pay off any debt he incurred during college or to start his new life as a fully independent adult. ◘

> Always exhaust federal funds first—they're a **better deal.**

Suze Orman's latest book is The Money Class: How to Stand in Your Truth and Create the Future You Deserve *(Spiegel & Grau). To ask Suze a question, go to oprah.com/omagazine_talk.*

College Finances 101

If you're filling out financial aid paperwork right now, take note: Every student needs a long-term approach that makes sense before enrollment, during school, and after graduation.

Precollege

INVEST IN A 529 COLLEGE SAVINGS PLAN. If Mom and Dad (or any relative, for that matter) are truly on track with their retirement savings, they can set aside money to pay for a child's college expenses in a 529 plan, which isn't subject to federal taxes if its earnings fund educational expenses. Learn about direct-sold (broker-free) plans offered in your state at savingforcollege.com.

SCOPE OUT STARTING SALARIES. Remember: A graduate's first-year salary represents the maximum amount he or she should borrow. Many 16-year-olds don't know exactly what they want to major in, but that's no reason for kids and parents not to take a look at entry-level compensation in a variety of fields. Check out salary.com and the U.S. Department of Labor's *Occupational Outlook Handbook* (bls.gov/ooh/home.htm).

On Campus

KIDS BORROW FIRST. Federal student loans are the cheapest and safest way for a family to borrow. Find more details at finaid.org and direct.ed.gov/student.html.

PARENTS BORROW LAST. This bears repeating: No parent is to borrow a penny if they don't have ample retirement savings. Better your kids attend a less expensive school today than support you tomorrow. Choose federal PLUS loans. (Find details at studentaid.ed.gov/types/loans/plus.) And steer clear of home equity loans to finance college; if you default, you could lose your house.

Postgraduation

STAY ON TOP OF YOUR REPAYMENT OBLIGATION. Six months after graduation, your loan will come due. No job? You can postpone payments for up to three years so long as you're unemployed, but you must sign up for a deferment before falling behind on your loan.

AVOID THE DEFAULT DISASTER. Student loans don't disappear when you file for bankruptcy; they stay with you forever unless you can prove that repaying them would cause undue hardship. What's more, a default will weigh on your credit report and FICO score like a 300-pound chunk of concrete. **—S.O.**