College Money Matters™
Get smarter about paying for college

# Newsletter

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## In this edition:

- How to compare financial aid packages
- What are the different types of loans?
- How much is safe to borrow?
- What to do if the college you want costs more than you can afford
- Sources of unbiased information about paying for college

*Insights and info from College Money Matters – a non-profit organization dedicated to helping high school students and their families make informed decisions about applying, choosing and paying for college.*

# Decision time: What to know before you choose a college.

Choosing a college can be one of the biggest decisions of your life. And it's not just about where you'll go to college, it's about what path your future might take. Your school should fit your personal, academic, professional and financial goals. This edition of the College Money Matters Newsletter focuses on the financial side – namely, what can you and your family afford?

## How to compare financial aid packages

When you receive an acceptance letter from a college, you've got good reason to be proud. But it's also important to be informed. Here are five key things to know about these letters:

**Your cost of attendance will be different from what it says on your financial aid form.**
The "cost of attendance" or COA on your form is simply an average for all students at that college. Your costs will be different because you'll have your own individual costs of transportation, books, clothing, personal expenses, and more. If you'd like some help estimating those costs, use this link..

**It's important to separate your loans from your scholarships and grants.**
On many acceptance letters, scholarships, grants and loans are grouped together under Financial Aid. But here's the big difference: Scholarships and grants don't have to be paid back, while every dollar you receive in loans must be repaid – PLUS INTEREST. If you're not sure which you're being offered, contact the college and find out.

**Your loan will likely cost more than the amount shown.**
This is where interest comes in. Let's say a college offers you an $8,000 loan in financial aid. That's just part of the story. Because at the current student loan interest rate of 6.5% for Federal Student Loans, if you take 10 years to pay that loan back, it will cost you almost $11,000! Visit this page to estimate what loans of different amounts can cost.

**Check if your bottom line requires an additional loan.**
Look at the total amount at the bottom your financial aid letter. Sometimes it's called the "Net Cost" or "Net Price." That's the amount you and your family still need to pay the college – even with the loans listed above it. So you need to decide where that money will come from, and if that particular college is the right choice.

**Your financial aid statement only covers one year.**
Remember, you're going to be in college for four years, or even more if you take longer to graduate. So whatever amount you see on the bottom line, multiply it by four. And don't forget: tuition and interest rates can go up.

## What are the different types of loans?

College Money Matters suggests avoiding loans as much as possible, but we also recognize that most students and their families will need to take out loans to cover at least some part of the cost of college. That's why it's important to know there are different kinds of loans, as you see here:

**Federal student loans**
Students and families of any income can take advantage of Federal student loans issued by the US Government. These loans offer lower rates and more flexible payback options than almost any other source. Also, you don't have to start making payments until six months after you graduate. But the interest on your loan starts adding up the moment your college receives the loan amount. A note: Depending on your income, the government will grant you either a subsidized or unsubsidized loan. A subsidized loan is where the government pays the interest that builds up while you are in college. With an unsubsidized loan, you pay whatever amount of interest accumulates during your years in school.

**Limits on student loans**
Over the course of your college education, as of 2025, you cannot borrow any more than $27,000 in Federal student loans over the course of 4 years in college (assuming you are not independent from your parents). Important: if you don't borrow that $5500 in your freshman year, you won't be able to add that amount to your sophomore year loan. It only works on a year-to-year basis.

| Year | Maximum Amount |
|---|---|
| Freshman year only | $5,500 |
| Sophomore year only | $6,500 |
| Junior year only | $7,500 |
| Senior year only | $7,500 |

**Private loans**
Private loans get their name because they're issued by private, for-profit companies. Compared to government student loans, private loans usually have much higher interest

rates, higher fees and more rigid payback terms. The College Money Matters team urges you to avoid private lenders whenever possible. And if you do choose to take out loans, use loans from the Federal Government first.

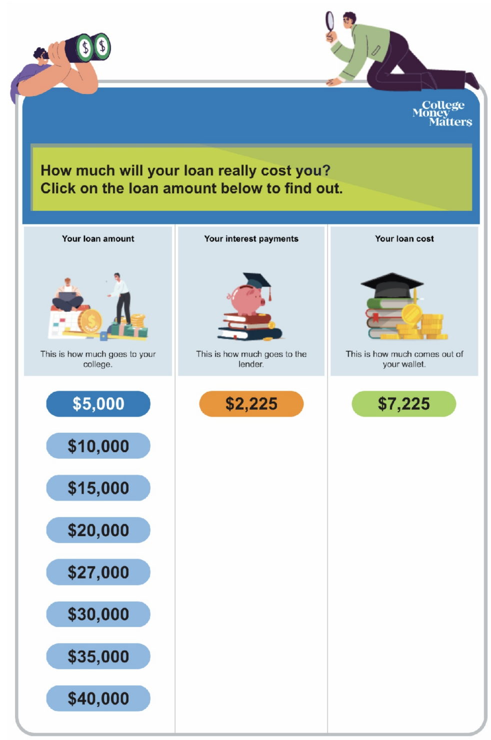
**Parent PLUS loans – the Federal loan program for parents**
The Federal Government will also provide loans to parents of college students under the Parent PLUS program, which you can apply for **here.** Unlike Federal student loans, the people obligated to pay back these loans are the parent, not the student – and it's important for parents not to take on too much debt, too. For more details on Parent PLUS loans, go to **this page**.

## How much is safe to borrow?

With all the news about the student loan crisis, and all the problems that can come with going into debt, it's not surprising that many college-bound students and their families are concerned about how much is safe to borrow in student loans.

How much is too much? Most financial advisors suggest that any family's total debt payments – including mortgage or rent, car payments, credit cards, and other debt – should not be more than 36% of their income. And student loans should not exceed 10%.

Use the calculators on **this page** to get a good estimate of what your costs and payments might be.




## What if the college you want costs more than you can afford?

Some students find that even if they've been accepted by the school they most want to go to, the cost is more than they or their family can afford. If you find yourself in that situation, here are some options to consider, none of which involve loans:

- **Ask about starting in the winter semester:** Some colleges will reduce the price of admission if you agree to start in the winter, rather than the fall.
- **Defer admission for a year and take a job:** This won't lower the admission price, but it will provide the opportunity to build up funds for college, which in turn can reduce the amount you may need in loans.
- **Go to a community college and take credits that will transfer:** The percentage of students starting at community colleges and then transferring to regular colleges

has been increasing. One big reason is that going to a community college for a year or two is a good way to save on both tuition and the costs of living away at school. However, be sure to check which of the classes offered by the community college will count for credit by the school where you plan to get your undergraduate degree.

- **Look into colleges that will accept late applications.** Even late in the school year, there may be less expensive schools that will accept late applications. Here's a list to check out. As with a community college, you may be able to take a year or two at the less expensive school, and then be able to afford transferring to the school you really wanted to go to. But be sure to check with the desired school to be sure they'll accept your credits.

## Sources of unbiased information about paying for college


College Money Matters and our website, **collegemoneymatters.org**, is dedicated to providing free and objective information about choosing and paying for college. Here are other helpful sources:

- Mark Salisbury of Tuitionfit.org has put together a great video entitled "Four Fundamentals to Figuring out a Financial Aid Award Letter." **Watch the video**.
- The Consumer Financial Protection Board has a calculator that lets you enter specific information from your financial aid packages so you can estimate what your college choices may cost. **Try the Consumer Financial Protection Bureau Comparison Tool**
- Uaspire is nonprofit organization that created this tool to help college-bound students and their families compare financial aid packages and estimate what a college may really cost. **Use the Uaspire calculator.**

College Money Matters
No interest but yours

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Your **contribution** will help more families take a more affordable approach to college.

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