
Financing your Legal Education

Columbia University

January 29, 2007



General Themes

- Law School as investment - both good and bad –
Prospective applicants should determine if law school is the right financial investment for them. This should not be a lightly made decision.
- *The good news* - You can finance law school provided you have an absence of bad credit
- Apply early to law school!!
- Take finance as seriously as admission
 - it may even be harder than getting in!!



How Law School is Financed

- Students and families - #1 source
- Federal Aid – Loans - Eligibility requirements:
 - *Enrolled at least half time at an eligible school and maintaining satisfactory academic progress.*
 - *A U.S. citizen or a permanent resident of the U.S. or an eligible trust territory.*
 - *Not currently in default. Must not owe a refund on any Title IV loan or grant.*
 - *Registered with Selective Service (if borrower is a male under age 25).*
 - *You might not be eligible for Federal student aid if you have been convicted of selling or possessing illegal drugs*
- *No Pell Grants for professional school*
- Private Loans
- Institutional aid- smallest part
- *Very few sources of scholarships other than those awarded by individual schools. Look at school websites and at <http://www.finaid.org/> for general scholarships.*



Students and Families

- Savings - How long have you known that you want to attend law school? Planning!
- Student earnings - summer and term-time
- Parental and other gifts
- Borrowing – student resource



Student Cost of Attendance

- Important concept for federal aid
- If \$1 in federal aid (Stafford/Ford, Perkins, FWS) total aid must not exceed
- Set by individual schools
- Reasonable estimate of ...

Student Cost of Attendance (COA)

- Tuition and Fees
- Room and Board – *the budget can vary greatly from school-to-school even in the same city - make sure if you sign a lease that the cost of rent falls within the school's budget for housing*
- Books and Supplies
- Personal Expenses
- Transportation
- Dependant care
- Actual cost of a computer
- Disability needs – *expenses should be discussed up front with financial aid officer*

Expenses NOT Included in COA

- **Car payments** - especially if there is reliable public transportation in the town/city where the school is located
- Support of spouse and family
- Payments of current/prior credit card debt
- Periods of non-enrollment (e.g., summer)
- Relocation expenses, BAR exam (though there are loans for the BAR exam and living expenses while studying for the BAR)

Federal Requirements

- US citizen or Permanent Resident
- Pursuing eligible program in eligible institution
- Enrolled $\leq \frac{1}{2}$ time
- Not in default
- No recent federal drug convictions in the past 2 years
- File FAFSA
- File loan applications !! 😊 - Apply for loans once you are deciding between 1 or 2 schools – Ideally one unless admitted off wait list. As an aside, applicants by late in the spring should only hold one or 2 acceptances not multiple ones.

Federal aid for Law Students includes:

- ☺ Federal Stafford Loans- Sub/Unsub
- ☺ Ford Federal Direct Loans - Sub/Unsub
- ☺ Federal Grad PLUS Loans
- ☺ Perkins Loans
- ☺ Federal Work Study
- ☺ Federal Loan Consolidation



Federal Stafford and Direct Loans

- Total of \$20,500 per year
- Interest rate – fixed at 6.8% for life
 - “new” loans after July 1, 2006
- 6 Month grace period after enrollment ends
- 0-4% origination/guarantee fee
- Subsidized versus unsubsidized



Stafford Loans

Subsidized

- Government pays interest while student in school
- Maximum of \$8,500 per year

Unsubsidized

- Interest accrues while student in school
- Maximum of \$20,500 less Subsidized Stafford



GRAD PLUS Loans

- Not **P**arent, not **U**ndergraduate **S**tudy
- Yes **L**oan !
- Up to Cost of Attendance less other aid
- 8.5% fixed interest
- Origination/Guarantee Fee – 0 to 4%
depending on the lender

PLUS Credit criteria

- No federal default
- **No accounts currently 90 days past due** – make sure when applying for the PLUS Loan that you are current with all payments (phone, gym membership, credit cards, rent, etc. If not become current and then apply
- In past 5 years **NO:**
 - Default, Bankruptcy, Discharge, Foreclosure, Repossession, Tax Lien, Wage Garnishment, Write-off of a Title IV Debt, Open Collection

May allow for private loan eligibility – esp 90 day!

Perkins Loans

- Federally guaranteed
- Campus Based
 - May not be offered by all schools – many only offer this type of loan to undergrads or graduate students entering low paying professions (teaching, social work, etc.)
- 5% fixed interest
- 9 month grace period
- Maximum \$6,000 annually



Federal Work Study

- Campus Based
- Hourly Wage
- Need Based
- On Campus or off
- Minimum wage or more !!



FAFSA

Free Application for Federal Student Aid

- Calculated Family Contribution (*if you are single you are a family of one*) for Federal aid- for the purposes of federal student aid, graduate and professional school students are considered independent. If you are married, your spouse's financial information will be required.
- Free – Do not pay for this – on-line FREE application that you can do yourself at <http://www.fafsa.ed.gov/>
- Must be completed each year
- Student may specify up to six schools at one time- *if you are applying to more than six schools, you can go back to your FAFSA application and erase the six schools and add six new ones once the Federal Government has transmitted your information to the first six schools (usually takes two days). You can continue doing this until you have submitted your FAFSA to all schools you are applying to. You will receive an e-mail or check on-line to see when your FAFSA is transmitted to the schools.*
- School specific regarding parents' info – *some schools (there are app. 40) that will require you to complete the parental information section if you want to be considered for school sponsored grants and scholarships. Others will have you submit this information on their school-specific forms. Check with each school by looking at their website and application materials or by calling the law schools' financial aid offices. The federal government will ignore parental financial information for the purposes of determining the award of federal loans.*
- Complete your taxes ASAP! *If you owe the federal government money, you don't have to pay until April 15th so complete your taxes EARLY! You should have your W-2 forms from employers by January 31.*
- Pay attention to and become familiar with school deadlines and procedures regarding financial aid. *They all differ! Check it out today as some schools have very early deadlines.*



Institutional aid

- Need-based scholarships – *many schools are moving away from need-based and looking at other demographic factors*
These scholarships are determined by the Financial Aid Office based on information provided to them by you and the government. If your situation has changed or you feel you have unique circumstances, contact the Financial Aid Office at the particular school. Above all be polite and professional to everyone.
- Merit-based scholarships – *many schools moving primarily to merit-based scholarships - these scholarships are awarded by Admissions. If you want to negotiate your award, above all be professional and polite to everyone in all communication. Don't threaten to go elsewhere. Make sure if negotiating that the two schools are the same caliber.*
- Institutional loans – *loans specific to a school*
- Loan Repayment Assistance Programs – *see next slide*



LRAP

- Awarded post-graduation
- to grads who take category of jobs and/or with low earnings - *(usually public interest law jobs – some schools such as Yale have a wider much more generous types of jobs you can take to qualify for a LRAP)*
- Often a loan – forgiven over 1-10 years
- 106 Programs nationally
- May not be available at all schools
- Also employers/states
- *Some school's LRAP's are very generous other are not. ASK QUESTIONS AND READ THE FINE PRINT!*
- *For more about LRAP's visit <http://www.equaljusticeworks.org/>*



Applying for scholarships

- School forms
 - in admissions applications or later
- Need Access – collects parental info
- Profiles
- Parental income and assets??!! – solely for the limited amount of institutional funds



Private Loans

- **Credit- based (*unlike federal loans that are not credit based*) – For private loans you must have good credit.**
- **Signature- no collateral *required for these loans just your signature promising you will pay back the loans***
- **Market interest rate - no cap (*as high as 19.2% usually based on your credit rating*)**
- **Variable interest rate – *interest rate can change from month-to-month or quarterly depending on the lender***
- **Guarantee fees (*the percentage of money taken right off the top of the loan by the private lender*) - WHY??!! – *the lenders want to make sure they recover their monies. The fees can range from 0 – 15% and are determined by the applicant’s credit rating, the default rate of the school the applicant is attending, and earnings of alums from the law school.***
- **Co-Signor options/requirements (*if an applicant has a poor credit rating may need to get a co-signor for the loan*)**
- **Capitalization -*allows you to delay making interest payments until you begin repaying your loan. With capitalization, interest payments are added to the principal (the amount you borrow) of the private loan.***
- ***Applicants should only apply for a private loan once they have chosen the school they are going to attend. Applying for individual private loans for more than one or two schools will hurt your credit rating!***
- ***Find out the law school’s preferred private lender as they will MOST LIKELY give you the best rates! Financial aid offices have this information.***



Private loans include:

- Law Access - <http://www.accessgroup.org/>
- Law Loans Sallie Mae - <http://www.salliemae.com/apply/borrowing/lawloans.html>
- Citibank - <http://www.citibank.com/us/index.htm>
- Key Bank –
<http://www.keybank.com/templates/t-ps2.jhtml?nodeID=H-1.33.b4>
- T.H.E. – <http://www.northstar.org/>
- Nellie Mae - <http://www.nelliemae.com/loancenter/>
- Fleet (*now Bank of America*) - <http://www.bankofamerica.com>
- and more



Credit

- The number 1 issue in law school finance
- Credit being granted earlier – HS students
- If your credit is bad, you may not be able to borrow PLUS and/or private loans



If you need PLUS or private
loans for law school and have
bad credit

You may not be able to attend !!



Nationally, 15-20%
rejection rate for bad
credit

Pay on time !
Balance to available credit
Authorized user
Debit and charge cards



FACT Act of 2003


- Fair and Accurate Credit Transactions
- Free credit report annually
- www.annualcreditreport.com
- Get your credit report now and make sure there are no mistakes!


Credit Reporting Agencies


 Experian

 www.experian.com

 Trans Union

 www.tuc.com

 Equifax

 www.equifax.com



Credit Reporting

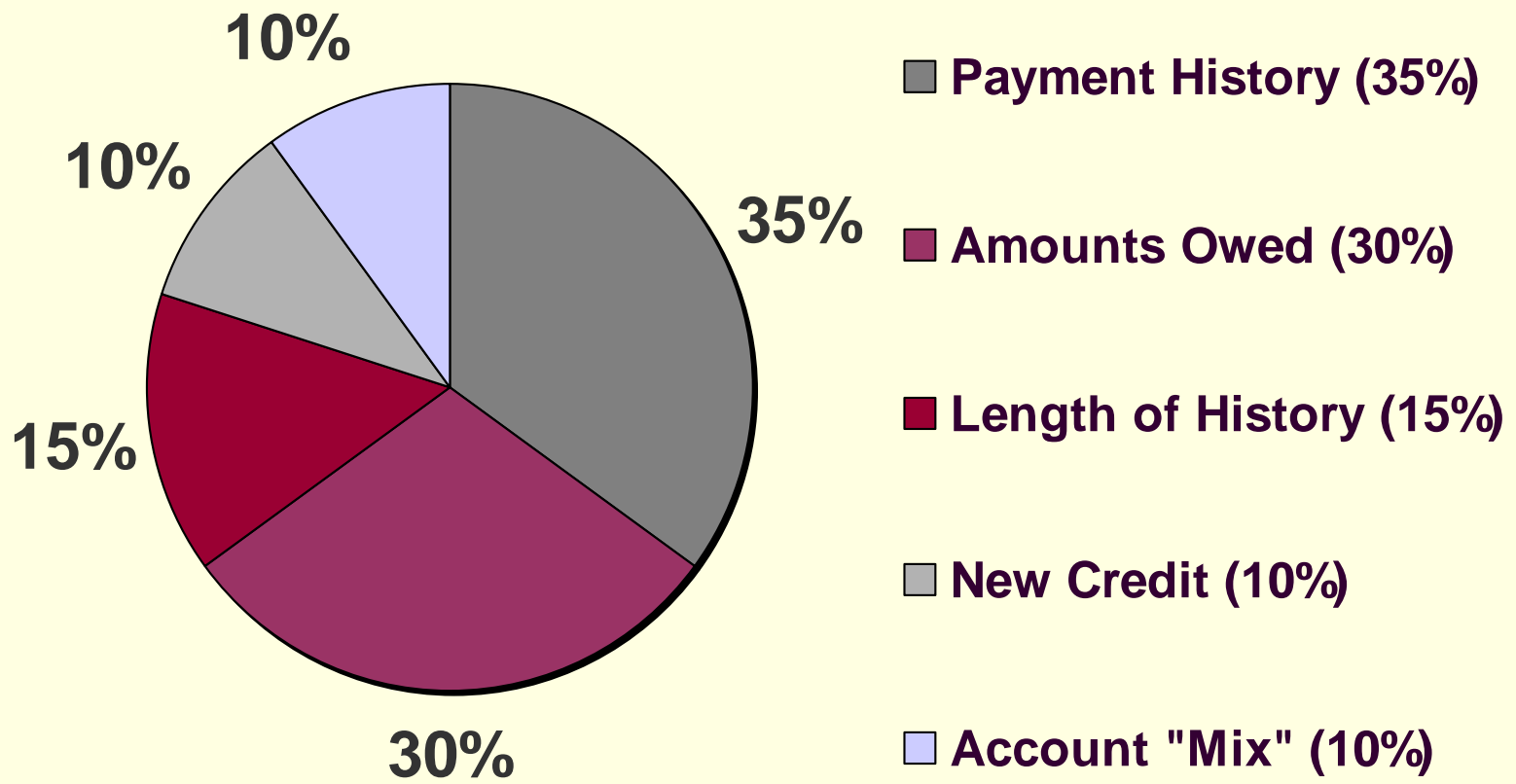
What is a credit report?

- Record of your credit accounts and how well you've performed in repaying those accounts
- Derived from data in your credit history that is maintained by authorized credit reporting agencies
- Provides a measure of your "*willingness to pay*" a loan or other financial obligation
- Comparable to your "*credit transcript*"
- *To establish a credit history, get a national credit card (MasterCard, Visa, American Express, Discover) and charge something monthly and ideally pay your credit card statement in full each month to avoid accruing interest charges*
- *Do not have more than seven credit cards. More than that will negatively impact your credit score.*
- *If you have fewer than seven, it's better to keep the accounts open and not use the credit than to close the accounts.*

What is credit scoring?

- Fundamentally a way to tell if a loan is likely to be profitable
- Review of all aspects of student credit history
- May be used to accept/deny or set rates and/or fees
- *To establish a credit history, get a national credit card (MasterCard, Visa, American Express, Discover) and charge something monthly and ideally pay your credit card statement in full each month to avoid accruing interest charges*
- *Do not have more than seven credit cards. More than that will negatively impact your credit score.*
- *If you have fewer than seven, it's better to keep the accounts open and not use the credit than to close the accounts.*
- *Order your credit report as there could be errors! If there are errors, get them cleared up now!*

Credit Scoring - Factors Affecting Your FICO® Credit Score



Credit Scoring

These Factors DO Count!

- High revolving account balances WILL impact score even if no history of late payments
- Paid collection accounts DO impact score until removed from report
- Use of credit counseling services, if reported by creditor, CAN lower score
- Inquiries for more credit CAN lower score

Credit Scoring

Other Common Misconceptions

- Balance transfers don't hurt score
- Credit history contains only current account status
- Delinquent accounts now made current have no negative impact on score
- Bankruptcy "clears" both debt and credit record
- Divorce decrees regarding joint accounts must be honored by creditors
- Student loans not in repayment are not counted as debt

Credit Reporting

Why check your credit report?

- Errors occur
 - Records are keyed first by name
 - 280 million+ people in US
 - Others may have same first and last name
- Can take months to correct errors
- Helps you detect if you've become an identity theft victim
- It's a good financial habit

Obtaining Your FICO[®] Credit Score

Go to *myFICO.com*

Also can link from this site to a free score estimator on *Bankrate.com* that may be a good first step in determining your score.

Credit Score

Maximize Your Score

- Don't procrastinate – *pay all bills on time*
- Pay off any existing credit card debt as soon as possible – *keep revolving debt as low as possible*
- Avoid closing your oldest credit card account – *older accounts score more favorably*
- Minimize opening new revolving accounts

Prepare now

- Curtail spending
- Pay off all existing credit card debt
- Develop and maintain good credit
- Save money
- And when ready:
 - Apply for financial aid

3. Plan your budget

- Develop an affordable budget – live like a student and not an attorney during law school
- Follow your budget plan
- Minimize what you have to borrow

Budget Planning Tools

- Online interactive calculators
 - In-School Budget
 - Out-of-School Budget
 - Repayment Calculator
- Available at:
www.accessgroup.org

Budget Planning

Cost depends on choices you make!

Tuition and fees

Housing

Food

Entertainment

Transportation

Miscellaneous

Repayment

- How much will this really cost?
- Can I afford it?
- Repayment options/incentives
- 10, 15, 20, 25, 30 year repayment
- Federal Loan Consolidation
- Look at the Software slide (next slide) to help you answer these questions.



Software

- Access Group Advisor
 - 1-800-282-1550
 - www.accessgroup.org
- Nellie Mae EDvisor
 - 1-800-EDU-LOAN
 - www.nelliemae.org
- www.finaid.org

How much should
you borrow?

*How far will your future
paycheck will go?*

Impact of Borrowing

Can you afford your planned borrowing?

- Calculate how far paycheck will go
- Estimate future budget plan
- Understand total cost of debt
- Know and use the “RULE OF 110”

“Rule of 110”

- Monthly loan payment (*approx.*)
 - \$110.00 per \$10,000 owed
 - \$11.00 per \$1,000 owed
 - \$1.10 per \$100 owed
- Assuming
 - 5.30% interest rate (*in-repayment*)
 - 10-year repayment term
 - Standard (fixed) monthly payments

Full-time Starting Salaries*

Class of 2004

National median	\$55,033
■ Academic	\$40,000
■ Business/industry	\$60,000
■ Judicial clerkships	\$43,000
■ Government	\$45,000
■ Private practice	\$80,000
■ Public practice	\$38,000

***Salary statistics provided by NALP, 2005**

4. Develop and Maintain Good Credit

Good credit may be needed . . .

- to qualify for some education loan programs (e.g., PLUS, private loans)
- to get the job you want
- to achieve your financial goals, e.g., buying a home, financing a professional practice

Have *I* exhausted
you yet?



Stephen G. Brown
Fordham University
School of Law
New York, NY 10023
212 636-6815
sbrown@law.fordham.edu



How much should
you borrow?

*How far will your future
paycheck will go?*

Software

- Access Group Advisor
 - 1-800-282-1550
 - www.accessgroup.org
- Nellie Mae EDvisor
 - 1-800-EDU-LOAN
 - www.nelliemae.org
- www.finaid.org

Impact of Borrowing

Can you afford your planned borrowing?

- Calculate how far paycheck will go
- Estimate future budget plan
- Understand total cost of debt
- Know and use the “RULE OF 110”

“Rule of 110”

- Monthly loan payment (*approx.*)
 - \$110.00 per \$10,000 owed
 - \$11.00 per \$1,000 owed
 - \$1.10 per \$100 owed
- Assuming
 - 5.30% interest rate (*in-repayment*)
 - 10-year repayment term
 - Standard (fixed) monthly payments

Full-time Starting Salaries*

Class of 2004

National median	\$55,033
■ Academic	\$40,000
■ Business/industry	\$60,000
■ Judicial clerkships	\$43,000
■ Government	\$45,000
■ Private practice	\$80,000
■ Public practice	\$38,000

***Salary statistics provided by NALP, 2005**

4. Develop and Maintain Good Credit

Good credit may be needed . . .

- to qualify for some education loan programs (e.g., PLUS, private loans)
- to get the job you want
- to achieve your financial goals, e.g., buying a home, financing a professional practice

Have *I* exhausted
you yet?



Stephen G. Brown
Fordham University
School of Law
New York, NY 10023
212 636-6815
sbrown@law.fordham.edu

