Focus on Your Student Loans: Planning Ahead Could Save You Thousands of Dollars

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by Jeff Wanic and Dan Thibeault

On July 1, the interest rate on federal loans will go up significantly. Act before then to ensure that you won't pay more for your education than necessary.

For many law students, there's only one thing worse than preparing for the bar exam or juggling their course loads: figuring out how to pay for law school once it's over. Law students routinely sign their financial aid forms without understanding the choices they have to keep their future loan payments as low as possible. As a result, they risk spending thousands of dollars more on their education than necessary.

Fortunately, students have a new incentive to make money-saving decisions about their educational loans. A new federal law, which takes effect July 1, will raise the interest rate on all new Stafford loans from 4.7 percent to 6.8 percent. The 6.8 percent fixed rate will replace a variable rate that had been adjusted every July 1, based on the 91-day Treasury bill. The 6.8 percent fixed rate applies to new loans. Federal loans taken out before then will still have a variable rate.

On July 1, the variable rate on existing federal loans is expected to exceed 6 percent, so consolidating your loans before then will let you avoid that increase. While this is important for graduating students, the new law also eliminates consolidation for current students who are not graduating this spring, you won't be able to consolidate until you finish school. Students who pay their bills on time and generally maintain a positive credit record establish an increasingly stable credit history. A better credit record generally translates into lower borrowing rates.

However, lenders do not automatically reduce their borrowers' interest rates simply because the borrowers' credit ratings have improved. The only way to secure a revised interest rate and lower monthly payment is to consolidate your existing loans.

1. Consolidate your federal Stafford loans (definitely)
   As of July 1, the Stafford loan rate of 4.7 percent will be history. Current rates would translate into a student loan rate in excess of 6 percent—or perhaps as high as the Stafford loan cap of 8.25 percent—depending on how much short-term Treasury rates increase. Be sure to consolidate these government-guaranteed loans before July 1 to ensure you lock in the lower rate.

   Consider carefully which lender will offer you the best deal. Even with federal-guaranteed loans, lenders compete for your business by offering a combination of rate incentives and borrower benefits, both of which can substantially lower your cost of borrowing.

   As with any business agreement, study the details. Many lenders have preconditions, which they hide in the fine print, that limit the value of their incentives and benefits.

2. Consolidate your private loans (probably)
   Although private loans are not eligible for federal consolidation, the vast majority of students can reduce their monthly payments and improve their financial position by consolidating their private loans.

   Doing so can save you thousands of dollars. But payback grace period enables you to take advantage of the higher credit score you may have developed since starting law school. Students who pay their bills on time and generally maintain a positive credit record establish an increasingly stable credit history. A better credit record generally translates into lower borrowing rates.

   However, continue to pay your bills on time and generally maintain a positive credit record establish an increasingly stable credit history. A better credit record generally translates into lower borrowing rates.

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3. Choose a cost-efficient bar loan
   If you don't expect to have an income until after the bar exam or later, you'll need to keep yourself financially afloat in the meantime. At the very least, you may have to borrow money to pay for your bar exam prep course.

   Whatever you do, avoid running a large balance on your credit cards. Credit card lenders tend to charge exorbitant rates and offer inflexible terms. Also be careful if you receive offers for credit cards with a 0 percent interest rate on balance transfers. Many people use such low rates as an excuse to increase their borrowing, which they still have to pay back eventually. Opening too many credit card accounts also risks harming your credit history, which will increase your future cost of borrowing.

   A far better option is to take out a bar loan. Most educational lenders offer such loans with a limit of between $10,000 and $15,000. When selecting a lender, be sure to consider the loan rate, term, fees, and grace period.

   Based on an analysis of the current offerings of 10 lenders, we've listed the most attractive terms available below. If you need a bar loan, this should give you a benchmark for deciding whether a lender is offering a reasonable deal:

   Rate: LIBOR + 2.7% (7.5% at today's rate) or Prime + 0.5% (8% at today's rate).
   Term: 20 years without any prepayment penalty.
   Fees: No origination or repayment penalty.
   Grace period: Nine months.

4. Extend your grace period and pay off your credit card debt
   If you have federal student loans and a high-interest credit card debt, a good way to reduce that debt is to extend the grace period on your federal loans. All federal student loans include a six-month grace period after graduation before repayment begins. In addition, federal loans are eligible for so-called financial hardship forbearance, which suspends payments for 12 months. Despite the name, financial hardship forbearance is available to you even if you're earning a full-time salary. Forbearance has no negative impact on your credit rating, and lenders rarely deny requests for it.

   Use your grace period or forbearance to pay off your credit card debt as much as you can. Typically, credit card debt is at least 7 percent higher than your student loan rates. Therefore, you'll save money in the long run by making large payments on your credit cards before you pay off your student loans.

5. Don't pay off your federal student loans early
   Although federal student loans are probably the least expensive debt you'll ever incur. These rates are so low—well below 5 percent—that it's actually wise not to pay them off early, which can be financially harmful in the meantime. At the very least, you may have to borrow money to pay for your bar exam prep course.

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   However, lenders do not automatically reduce their borrowers' interest rates simply because the borrowers' credit ratings have improved. The only way to secure a revised interest rate and lower monthly payment is to consolidate your existing loans.

For 2007, 2008, & 2009 GRADUATES

1. Take advantage of in-school consolidation
   If you're a current student, you need to complete an in-school consolidation of your Stafford loans before July 1 to avoid a change in interest rates. You'll lose your current low rate of 4.7 percent on money you've already borrowed. If you wait until after that date to consolidate, all your previous unconsolidated loans will be reset to the new rate of more than 6 percent. This would cost you nearly $5,000 in missed savings if you're an average LL and more than $12,000 if you're a typical 2L. You must consolidate before July 1, because the new law will bar in-school consolidation after that date.

2. Determine whether to take a PLUS loan or private loan
   Along with the interest rate changes, the new legislation will introduce an additional federal loan for graduate students called a PLUS loan. Unlike federal Stafford loans, PLUS loans will have no borrowing limit. In addition, PLUS loans have a fixed interest rate that is lower than the rates most students can obtain with private loans. Consequently, you will want to consider a PLUS loan in lieu of a private loan.
New York Law School Recycles

By Christopher Kamnik

Have you ever noticed that there are no recycling containers in the school? Have you ever wondered, how does New York Law School get away with this? Well, stop wondering. Even though there is an absence of recycling bins throughout the school buildings, New York Law School does recycle. New York Law School contracts out its trash and recycling removal needs with JEM Sanitation Corp. located in Lyndhurst, N.J. JEM picks up all garbage from New York Law School and sorts it at their facilities, separating recyclable from non-recyclable materials. This is the most effective way that New York Law School can be assured that all recyclable materials used at New York Law School are recycled. If you have any questions concerning the recycling program, please contact your SBA section representative for more details.

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Federal Student Loan Consolidation 101

Background: Federal student loan consolidation is a government program that was put in place in 1986 by the Higher Education Act to lower default rates. However, with interest rates dropping to historic lows during the past several years, consolidation has also become a refinancing tool that many professional graduate students have used to reduce their cost of borrowing.

How it works: When most students hear the word consolidation, they think of combining loans in order to get a lower payment. While this is an aspect of federal student loan consolidation, it's not the most important aspect from a financial standpoint. The primary benefit is to lock in a low interest rate.

Consolidation changes your federal Stafford loans from a variable rate (which changes every year on July 1) to a fixed rate, and it remains fixed for the life of the loan. Because interest rates are currently rising and are expected to continue doing so, the key is to consolidate and fix the interest rate before the rate increases.

A second benefit of consolidation is that it lowers your monthly payment by extending the term of your loan. All Stafford loans have a 10-year payback period. Upon consolidation, this term can be extended up to 30 years depending on your balance, thus reducing your monthly payment by more than 50 percent in some cases.

For students with multiple federal student loan lenders, a final benefit is combining those loans into one payment.

- Jeff Wanic and Dan Thibeault

Student Loans - continued from page 1

private loan when looking to pay for expenses not covered by Stafford loans.

Given the introductory nature of the PLUS loan program, some school financial aid officers may not be familiar with its benefits. If your financial aid materials do not include information on PLUS loan options, you should contact your school's financial aid staff or an independent student lender.

Here are some considerations to weigh when deciding which option is best for you:

1. **When to choose a PLUS loan.**

   All students receive the same interest rate on PLUS loans, regardless of their credit score. Because of lender incentives, the actual rate usually falls between 7.25 percent and 8.5 percent. In contrast, private loan offers rates that are tied to a student's credit rating. When deciding between PLUS loans and private loans, be sure to compare the best possible private loan rate against the current PLUS rate. If, after reading the fine print, you determine that the rate for the private loan exceeds the PLUS rate, then you should definitely choose the PLUS loan.

2. **When to choose a private loan (maybe).**

   If the private loan rate is lower than the PLUS rate, you may want to go with the private loan. We say maybe because PLUS loans are federal loans and therefore can only be acquired by current students. Private loans, on the other hand, can be taken out after graduation via private loan consolidation.

   Thus, if you've taken out a PLUS loan instead of a private loan and interest rates drop significantly after graduation, you will have the option of switching to a private loan through consolidation. If, however, you choose the private loan over the PLUS loan in order to get a marginally better rate, only to discover after graduation that rates have increased significantly, you won't be eligible to switch to a lower-interest PLUS loan.

As a result, if the rate you could obtain on both loans is the same (say, for example, 7.5 percent), then the best decision depends on what happens to interest rates in the future, a factor nobody can predict with certainty. If you take a private loan and rates increase, your new rate would be higher than 7.5 percent, so you would be worse off. On the other hand, if you took a PLUS loan and interest rates decrease, your loan would still be at 7.5 percent, so you would also be worse off.

If you're confused, here's a rule of thumb: If your private loan rate is no more than 0.5 percent less than the PLUS rate, take a PLUS loan. Still confused? Many of these considerations are complex and hinge on factors such as your individual credit rating. A professional loan counselor may help you reach a decision that makes the best financial sense for you.

3. **Choose the Stafford lender that offers the best value.**

   The federal government regulates all federal student lending, setting both the maximum rates and the fees that private lenders who offer federally guaranteed student loans are allowed to charge. However, lenders frequently offer rate reductions and discounted origination fees as a way to entice students to take out federal loans from them.

   Many students miss out on this easy path to saving money on their loans. When comparing lenders, be sure to ask about the origination fees and rate incentives they offer on their Stafford loans. Some lenders offer a 0 percent origination fee, which offers the most immediate savings for borrowers. And, as we counseled 2006 graduates in suggestion 1 above, be sure to read all the fine print when comparing lenders.

4. **Choose the best rate when choosing a private lender.**

   When borrowing for college, take out government-guaranteed student loans before you turn to private loans. Because private loans aren't guaranteed by the government, interest rates and fees are usually higher than for federal Stafford loans. With rising tuition costs, many students have to use private loans. However, as obvious as it may seem, many students fail to secure loans at the lowest available rate. As a result, students frequently end up paying far more than they should for their education.

   Most lenders are reluctant to provide full disclosure on their rates, opting instead to offer a rate prospective borrowers. Only after the loan has been secured do they provide students with their specific rates.

   Don't settle: Be sure to find out precisely what the rate will be on the money you're about to borrow. You wouldn't order a restaurant meal if the waiter told you that it costs " somewhere between $5 and $50," would you? Why then settle for fuzziness from your lender when you're spending thousands of times what you would on dinner?

5. **Don't use private loans to pay off interest on federal loans.**

   A common mistake students make is to begin making payments on their federal loans while continuing to take out private loans. Because private loans have significantly higher rates than federal loans, borrow only what you need in order to cover your living expenses.

   While some may argue that paying off interest on federal loans while still in school can help lower your overall costs, this is not the case for all borrowers. The only time you should consider such borrowing is if you have excess disposable funds. However, if you do find yourself in the enviable position of having disposable income, you should use this to pay down all remaining credit card, private loan, or federal loan balances.

A Glossary of Student Loan Definitions

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Federal consolidation: Process by which you may combine all your federally guaranteed student loans into one fixed-rate loan with up to a 30-year term. Federal consolidation is available directly through the government and through federally regulated private lenders. The primary rationale is to lock in the interest rate and lower monthly payments.

Private consolidation: Process, available through private lenders, by which you may combine all your private (i.e., non-federal) student loans into one variable rate loan with up to a 30-year term. The rationale is to lower monthly payments and to reduce the variable interest rate.

Prime: The interest rate a bank charges its best customers. It is used by student lending companies as a pricing benchmark. Therefore, if your loan is Prime + 1 and your lender is charging you prime, the lender is assuming that you are slightly more risky than its "prime" customer.

LIBOR: LIBOR stands for London Interbank Offered Rate and is the interest rate that banks charge each other. Like Prime, LIBOR is a pricing benchmark used by student lending companies.

Forbearance: A lender's postponement of federal student loan payments at the borrower's request. The period granted is typically 12 months, and interest is accrued and capitalized at the end of the period.

By Jeff Wanic and Dan Thibeault

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SUDOKI SOLUTIONS

### Sudoku I: Easy-Level Solution

```
4 2 6 5 9 1 8 7
3 1 7 4 8 2 9 6 5
9 8 5 7 6 1 4 3 2
2 6 4 8 1 3 7 5 9
7 9 3 6 5 4 8 2 1
8 5 1 4 9 6 3 7 2
5 7 2 1 4 6 3 9 8
1 4 8 3 9 5 2 7 6
6 3 9 2 7 8 5 1 4
```

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### Sudoku II: Medium-Level Solution

```
5 9 1 8 4 2 7 3 6
7 8 6 5 3 1 9 2 4
4 3 2 7 6 9 8 5 1
9 5 7 3 1 8 4 6 2 1
1 6 8 2 7 4 9 5 3
2 4 3 6 9 5 7 8 1
8 2 5 1 6 7 3 9 4
6 2 8 9 4 3 6 1 5
2 3 1 4 6 9 5 8 7
```

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### Sudoku III: Hard-Level Solution

```
3 9 5 8 6 1 2 7 4 
8 6 4 2 7 5 9 1 3 
1 2 7 9 3 4 6 5 8 
9 1 8 3 4 5 6 7 2 
4 5 1 2 6 8 7 3 9 
7 3 5 1 9 8 4 2 1 
5 3 6 7 9 8 4 2 1 
4 7 9 1 2 6 3 8 5 
2 8 1 4 5 3 7 9 6 
```
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BLSA Annual Alumni Dinner – April 7, 2006

FROM LEFT TO RIGHT: Natasha Neal (2005-2006 BLSA Secretary), Adebisi Agunbiade, Tasheeca Winstead, Antonette Payne, Alice King (2005-2006 BLSA President), Valeria Howell (2005-2006 BLSA Evening Vice President), Wendy Lattibeaudiere, Renee Tello stand ready to meet and greet at the BLSA Annual Alumni Dinner.

Valeria Howell, 2005-2006 Eve. Vice President & Former NYLS BLSA Chapter Vice President and Recent Graduate Roy Locke are all smiles.

Annual Alumni Dinner Speaker E. Christopher Johnson, Jr., Class of 1981, Vice President and General Counsel, General Motors North American and NYLS BLSA Chapter President Alice King.

FROM LEFT TO RIGHT: Nick Eblock, Patricia Quan, Javed Dyafar enjoy the cocktail hour.

Gillian Ballentine (center) and Karlton Jerrett (right) chat with a friend (left)

Appreciation of cultural differences and similarities and recognition of common successes was the focus of the evening.

Colorful ribbons and graceful dancers were a joy to watch.

NYLS community comes out in support of the dinner. (From left to right: Antar Jones, Debbie Yee, Antonette Payne and Alice King) Smile for the camera.

Presidential Posse 2005-06: (left to right) Andrea Louie, AALSA President, Smita Gulivindala, SALSA President, Barbara Pereda, LaLSA President (Photo courtesy of Andrea Louie)

Aseem—again. This time with Barbara Pereda. Does anyone see a pattern? (Photo courtesy of Barbara Pereda)

History in the Making – New York March for Immigrant Rights, April 10, 2006

A few NYLS students attempted to get a first hand account of the historic march that took place so close to this school.

NYLS girls.

Jessica Calvo and friend. (Photo courtesy of Barbara Pereda)

Jose Gomez and friend. (Photo courtesy of Barbara Pereda)

SALSA E-board member Aseem Jaluria and Antonette Payne. (Photo courtesy of Barbara Pereda)

Jessica Calvo, Jose Gomez, Asha Smith, Gustavo Fuentes, Jessica Reyes & Christian Gonzalez in the middle of the March.
Here are the rules of the puzzle:

There is really only one rule:
Fill in the grid so that every row, every column, and every 3 x 3 box contains the digits 1 through 9.

This means that:

- The digits to be entered are 1, 2, 3, 4, 5, 6, 7, 8, 9.
- This is a row, 9 cells wide. A filled-in row must have one of each digit. That means each digit appears only once in the row. There are 9 rows in the grid, and the same applies to each of them.
- This is a column, 9 cells tall. A filled-in column must have one of each digit. That means each digit appears only once in the column. There are 9 columns in the grid, and the same applies to each of them.
- This is a box, containing 9 cells in a 3x3 layout. A filled-in box must have one of each digit. That means each digit appears only once in the box. There are 9 boxes in the grid, and the same applies to each of them.

You can't change the digits already provided in the grid. You have to work around them.

Every puzzle has just one correct solution.

**Sudoku III: Hard-Level Puzzle**

```
 5 1 2 4
 7 5 9 1
 3
 8 3
 2 8 1
 9 8
 3 9
 4 9 1 2
 2 1 4 7
```

**Sudoku II: Medium-Level Puzzle**

```
 4 2
 5 3
 8 5 1
 5 7 3
 8 7 5
 6 1 7
 2 4
 6 2 5
 2 3 1
 6 9
```

**Sudoku I: Easy-Level Puzzle**

```
 4 5 3 1 8 7
 3 1 2 9 5 6 1
 4 8 7
 9 2 1 7 6
 1 8 3 7 6
 6 3 9 7 8 4
```

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