



WEALTH PARTNERS

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College Pre-Approval: A 3-Step Process to Graduate with Less Debt

By now, we've all seen this storyline unfold before – a recent college grad is buried in six figures of student loans, has no foreseeable job prospects, and has been forced to move back in with Mom and Dad. More and more, college-educated adults are returning to the nest, putting off first-time home purchases, and delaying marriage and having children. In large part, this is because they are financially overburdened with student loans – a growing trend that isn't good for individuals, or our economy as a whole.

How did we get here? My observation is that many people are making emotional decisions about college selection with complete disregard to the long-term financial effects that such an "investment" typically entails. This under-estimation of total college costs has resulted in a massive amount of easily attainable education loans. By and large, consumers are making uninformed decisions, albeit well intentioned ones, about how to pay for college and, in turn, are getting in way over their heads.

If you've purchased a home recently, you likely obtained a mortgage pre-approval letter – an official document from a lender, stating a preliminary determination of your qualifications as a borrower for a particular loan amount under that lender's guidelines. That determination was based on your income, assets, and credit worthiness – in other words, your ability to repay the loan. So, with combined college costs for two children rivaling that of a typical suburban home, why is there no process like this for financing a college education?

According to a new report from the Project on Student Debt at The Institute for College Access & Success (TICAS), graduates who borrowed for bachelor's degrees granted in 2012 had an average student loan debt of \$29,400. Seven in 10 college seniors (71%) who graduated last year had at least some student loan debt. And since 2004, the total student loan debt has grown from \$250 billion to over \$1.2 trillion, a staggering increase of nearly 25% per year! The cost of an undergraduate college education is now exceeding \$250,000 at some of the most elite colleges and continuing to rise 6 to 8% per year. At that rate, the cost of college doubles approximately every 10 years.

The takeaway? It's time to be proactive about college, rather than reactive. Remove the emotion, educate yourself, and become an informed buyer of a college education. What if funding a college education required a pre-approval process, much like buying a house?



Here is a *simple 3-step process to pre-approve your college choice*:

1. **Determine the true out-of-pocket cost to earn a degree after all scholarships and grants are applied.** Each school is now required to have a “Net Cost Calculator” available on their website that will estimate your eligibility for scholarships and grants. These take into consideration both your family’s estimated financial need, as well as the pure academic merit of your student.
2. **Determine how much of the unfunded cost you can afford to pay from your existing college savings plans and out of cash flow while in school.** If you have multiple children, divide your savings accordingly.
3. **Calculate the total amount of loans that will need to be taken out to fund the remaining balance, including an estimated monthly repayment schedule (caution, this can be a real eye opener).** A good rule of thumb is to take out no more in student loans than what is expected in first-year earnings. So, if your student projects having a starting salary of \$35,000, then \$35,000 should also be the maximum student loan total.

High school and college counselors will help you with this process, but ultimately, you have to decide which colleges fall within your pre-approved budget. All the numbers mean very little to a starry-eyed teenager. As a parent, you have to help get this right and prevent your student from getting in over their head, or robbing your own retirement. A college pre-approval letter is a great place to start in becoming an informed buyer of college education.

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COLLEGE PRE-APPROVAL™ Worksheet (Sample)

PARENT RESOURCES

529 Savings	\$25,000
Other Assets	\$3,000
Monthly Cash Flow (\$400 x 48 months)	\$19,200
Annual American Opportunity Tax Credit (\$10,000 Max over 4 years)	\$10,000
TOTAL PARENT RESOURCES (A)	\$57,200

PARENT LOANS

PARENT PLUS / PRIVATE LOANS (B)	\$0
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STUDENT RESOURCES

Student Savings (UTMA, Savings, etc.)	\$0
Monthly Workstudy / PT Job (\$200 x 48 months)	\$9,600
TOTAL STUDENT RESOURCES (C)	\$9,600

STUDENT LOANS

Student Stafford Loans (\$27,000 Max over 4 years)	\$27,000
Private Student Loans	
TOTAL STUDENT LOANS (D)	\$27,000

OTHER HELP

GRANDPARENT / FAMILY HELP (E)	\$5,000
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TOTALS

(A) PARENT RESOURCES	\$57,200
(B) PARENT LOANS	\$0
(C) STUDENT RESOURCES	\$9,600
(D) STUDENT LOANS *	\$27,000
(E) OTHER HELP	\$5,000
Your 4 Year Pre-Approval Amount	\$98,800

STUDENT PLANS

Anticipated Major / Career	Elementary Teacher
* Average Starting Annual Salary	\$39,300



COLLEGE PRE-APPROVAL™ Worksheet

PARENT RESOURCES

529 Savings	\$
Other Assets	\$
Monthly Cash Flow (\$_____ x 48 months)	\$
Annual American Opportunity Tax Credit (\$10,000 Max over 4 years)	\$
TOTAL PARENT RESOURCES (A)	\$

PARENT LOANS

PARENT PLUS / PRIVATE LOANS (B)	\$
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STUDENT RESOURCES

Student Savings (UTMA, Savings, etc.)	\$
Monthly Workstudy / PT Job (\$_____ x 48 months)	\$
TOTAL STUDENT RESOURCES (C)	\$

STUDENT LOANS

Student Stafford Loans (\$27,000 Max over 4 years)	\$
Private Student Loans	\$
TOTAL STUDENT LOANS (D)	\$

OTHER HELP

GRANDPARENT / FAMILY HELP (E)	\$
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TOTALS

(A) PARENT RESOURCES	\$
(B) PARENT LOANS	\$
(C) STUDENT RESOURCES	\$
(D) STUDENT LOANS *	\$
(E) OTHER HELP	\$
Your 4 Year Pre-Approval Amount	\$

STUDENT PLANS

Anticipated Major / Career	
* Average Starting Annual Salary	\$

