



## How much money should a family borrow for college?

There is no magic formula to determine how much you or your child should borrow for college. But there is such a thing as borrowing too much. How much is too much? One guideline is for students to borrow no more than their expected first-year starting salary after college, which, in turn, depends on a student's particular major and/or job prospects.

But this guideline is simply that — a guideline. Just as many homeowners got burned in the housing crisis by taking out larger mortgages than they could afford, families can get burned by borrowing amounts for college that seemed reasonable at the time but now, in hindsight, are not.

Keep in mind that student loans will need to be paid back over a term of 10 years (possibly longer). A lot can happen during that time. What if a student's assumptions about future earnings don't pan out? Will student loans still be manageable when other expenses like rent, utilities, and/or car expenses come into play? What if a borrower steps out of the workforce for an extended period of time to care for children and isn't earning an income? There are many variables, and every student's situation is different. A loan deferment is available in certain situations, but postponing loan payments only kicks the can down the road.

To build in room for the unexpected, a smarter strategy may be for undergraduate students to borrow no more than the federal student loan limit, which is currently \$27,000 for four years of college. Over a 10-year term with a 5.05% interest rate (the current 2018-2019 rate on federal Direct Loans), this equals a monthly payment of \$287. If a student borrows more by adding in co-signed private loans, the monthly payment will jump, for example, to \$425 for \$40,000 in loans (at the same interest rate) and to \$638 for \$60,000 in loans. Before borrowing any

amount, students should know *exactly* what their monthly payment will be. And remember: Only federal student loans offer income-based repayment (IBR) options.

As for parents, there is no one-size-fits-all rule on how much to borrow. Many factors come into play, including the number of children in the family, total household income and assets, and current and projected retirement savings. The overall goal, though, is to borrow as little as possible.

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