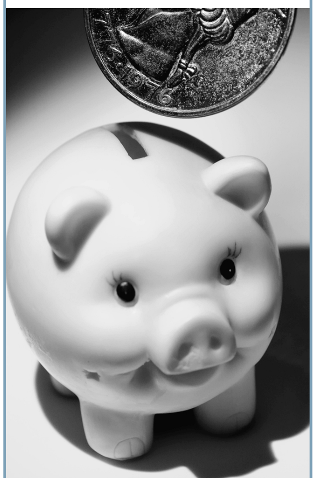
LAW SCHOOL LOANS
Lender Code: 834241
America's Top Law School Lender

Volume I, Issue 2
February 16, 2006

NEWSLETTER

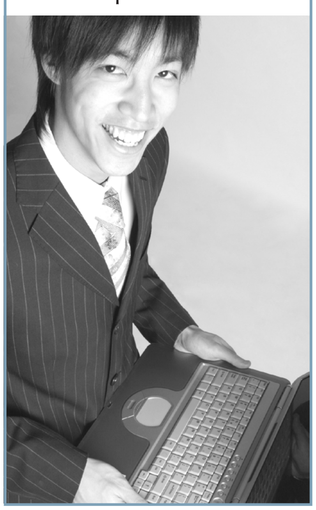
IN THIS ISSUE:



Law School Loans

Visit us on the Web
www.LawschoolLoans.com

- Use our interactive interest rate calculator
- Sign up for our weekly eNewsWire
- Read white papers and reports-free!



CHAMPAGNE TASTES, SIX-PACK POCKETBOOK - DAYANA YOCHIM

Dear Dayana, I am at a crossroads. I spent my twenties living a life of excess and reckless spending. Now, having recently turned 30, I am beginning to panic when there is only $4 in my checking account the last week of the month, and I've already begun raiding my minuscule savings account to buy such necessities as toilet paper and Fancy Feast for my cats.

Here's where I am at: I owe about $70,000 in consolidated student loan debts, which is a considerable payment each month even on the graduated repayment schedule. I recently reconsolidated at a new lower rate. Also, I recently acquired about $5,000 in credit card debt to furnish my new apartment, having moved back to the States a few months ago from overseas, where I grew accustomed to a life of 5-star luxury. My interest rate is — hold on, let me check ... It seems to have gone up a percentage point since I last looked and is now 7.9%!

I would like to take advantage of my new employer's 401(k) program and start saving money. I'm only 30, but the way I go through money, I figure I'll need a lot of it to retire in style. How would you suggest that I balance paying off student loan debt and credit card debt with starting a 401(k) and other savings? They offer 50 cents for every dollar contributed up to 6% of my annual pay. How much money are we talking about? Enough to make it worth forgoing a biweekly manicure or mini-shopping spree at Urban Outfitters every time they put something new on the display mannequins? Sincerely, Champagne Tastes/Six-Pack Pocketbook

Crack open a cold one (that's a beer, not a bottle of vintage Cristal). It's time to have a heart-to-heart.

Financial reality for most of us does not resemble Lifestyles of the Rich and Famous. In fact, if you want to go with a TV show equivalent for the average 30-year-old American, try Survivor. In fact, the daily money struggles of people with champagne tastes living on a beer budget (you know who you are — my colleague Seth Jayson wrote just the other day that for the first time

Continued on page 3

TAX BENEFITS ON EDUCATION EXPENSES

When you are paying for law school, it is sometimes difficult to see the light at the end of the tunnel. Law school can be insanely expensive. However, did you know that some of your higher education expenses may help you reduce your federal income tax? The Internal Revenue Service allows tax savings for individuals and families who pay higher education costs. The benefits vary depending on your eligibility, but both deductions, which reduce the amount of income subject to tax before the tax is calculated, and tax credits, which reduce the amount of income tax dollar-for-dollar after the tax is calculated, are offered by the IRS.

Hope Scholarship Tax Credit: One type of benefit offered by the IRS is the Hope Scholarship Tax Credit. This tax credit may be worth up to $1,500 per eligible student for a taxpayer who paid qualified tuition and related expenses. The catch is that the Hope Scholarship Tax Credit only applies to students in their first two years of college. The eligible student must be enrolled at least half time and be working toward a degree or educational credential. This tax credit applies to students who paid for qualified expenses, including tuition and fees, but excluding room and board, books, and transportation.

The Hope Scholarship Tax Credit is designed to be reduced or phased out as the taxpayer's income increases. For a single filer, the reduction begins with income of $40,000 and the credit is eliminated at $50,000. For joint filers, the reduction begins with income of $80,000 and the credit is eliminated at $100,000. Also, the credit may only be

Continued on page 2

Although the market for student loan services is extremely broad, our company has chosen to focus on one elite niche: We cater to the particular needs of law students and graduates. On average, a juris doctorate student will have around $100,000 in student loans by the time he or she graduates - a much larger amount than many other kinds of graduate students. A J.D. will also often have questions that only someone with a legal background would think to ask. Established and run by attorneys, Law School Loans is prepared to fulfill the needs of law school graduates at every level. We invite you to visit us at www.LawSchoolLoans.com.

LAW SCHOOL LOANS
Lender Code: 834241
America's Top Law School Lender

Volume I, Issue 2
February 16, 2006

NEWSLETTER

Tax Benefits On Education Expenses countinued from page 1

claimed by either the student or their parent. It is a "per student" credit intended to be used by parents for dependent students or by independent students.

Lifetime Learning Tax Credit: After completing your first two years of education, you become eligible for a Lifetime Learning Tax Credit to help defray the costs of tuition and related expenses. You may claim a Lifetime Learning Tax Credit of up to $1,000 if the eligible student is enrolled in at least one course. For this type of tax credit, you do not need to be pursuing a degree. Even if you are just taking classes to improve your job skills, you may be eligible for this credit.

The Lifetime Learning Tax Credit equals 20% of the first $5,000 of tuition and related fees paid by the taxpayer. The reduction for this tax credit, based on income, is the same as with the Hope credit. This credit is designed as a "per return" credit. Regardless of the number of dependent students a parent claims on his/her tax return, he/she may only take one Lifetime Learning Tax Credit.

A taxpayer may take only one of the credits for each dependent student each year. For example, if a family has two children in college--one in the second year and one in the fourth year--the taxpayer may claim the Hope credit for one and the Lifetime Learning credit for the other. A taxpayer may also claim the Hope credit during the first two years of college and the Lifetime Learning credit for the remaining years. There is no limit to the number of years you may take the Lifetime Learning credit; so it does apply to graduate-level students as well.

Student Loan Interest Deduction: Students who paid interest on student loans may deduct up to $2,000 of the interest paid. This adjustment reduces the amount of taxable income, and a taxpayer may take this deduction even if he/she does not itemize deductions. Eligible loans include those taken out to pay tuition, fees, living expenses, books, supplies, transportation, and equipment expenses. Most federal and private education loans would be eligible for this type of deduction. However, the student must be the taxpayer, the taxpayer's spouse, or his/her dependent; and the student must be enrolled at least half time and working toward a degree.

This deduction applies to interest paid during the first five years of repayment. Similar to education tax credits, the deduction is reduced as income increases, beginning at $40,000 for single filers and $60,000 for joint filers. If you are a single tax return filer with an income of $55,000 or a joint tax filer with income greater than $75,000, you will not be eligible for this interest deduction.

Employer Provided Educational Assistance: The tax code allows employees to exclude up to $5,250 of employer-provided education benefits from their taxable income. This means that employers can provide educational benefits such as tuition, fees, books, supplies, and equipment tax free. However, this only applies to undergraduate-level courses.

Education IRAs: Education IRAs (Individual Retirement Accounts) are trusts or custodial accounts designed to help families save for a child's education. The money in these accounts grows tax free until withdrawn. The student benefiting from an education IRA is permitted to withdraw the funds at any time. If the amount does not exceed the student's higher education expenses in a tax year--including tuition, fees, books, supplies, and room and board--the withdrawal will be tax free.

If a student withdraws more than his/her qualified expenses for the year, a portion of the education IRA withdrawal will be taxable. The taxable amount will be considered the same as income and must be reported as earnings. The student's taxable withdrawal may also be subject to a 10% additional tax.

Taxpayers benefiting from a tax-free education IRA distribution cannot take advantage of the Hope Scholarship or Lifetime Learning credit in the same year.

Taxpayers may choose to withdraw funds from a Roth IRA or traditional IRA without penalty if the funds will be used for the higher education expenses of the taxpayer, spouse, child, or even grandchild. A portion of the amount withdrawn will be taxable, but there will not be an additional 10% tax for an early withdrawal as long as the funds are being used for tuition, fees, books, equipment, and room and board for the year.

Student Loan Cancellation: If a borrower takes a community service job--with a nonprofit, tax-exempt, charitable, or education institution that provides loan forgiveness--he/she may not need to include the cancelled amount in his/her gross income for the year. To qualify, the loan must have included a provision for this type of program; and it must have been issued by a qualified lender--including the government, a tax-exempt public benefit corporation, or an educational institution--with the intention of helping borrowers attend educational institutions.

For more information on saving money on your taxes due to educational expenses, contact a tax professional or visit the IRS' website at www.irs.gov. Taking advantage of these programs is one way to begin saving money immediately on your education.

Continued on page 3

LAW SCHOOL LOANS
Lender Code: 834241
America's Top Law School Lender

Volume I, Issue 2
February 16, 2006

NEWSLETTER

Champagne Tastes, Six-Pack countinued from page 1

since the Great Depression, Americans once again have a negative savings rate) would make anyone beg to be voted off the island.

Unfortunately, digging in the couch cushions for laundry quarters and comparison shopping at Costco doesn't win Nielsen ratings. We don't want to see Grace Adler's roots begin to show because on a $41,000 real-world interior designer salary, she couldn't afford the posh pad, Prada duds, and the regular highlights and blow-outs she sports on Will and Grace. And as much as we would like to believe that a children's book illustrator can afford a roomy abode on Wisteria Lane, the actual median salary that Desperate Housewives' Susan Mayer would make outside of La La Land — $38,000, according to Careerbuilder.com — would hardly cover a modest two-bedroom apartment for this single mom and her teenage daughter.

Obviously, my first piece of advice is to unplug the TV and have your cable service disconnected.

Seriously, though, it's never too late to add some fiscal discipline to your life, and milestones — like, say, a 30th birthday — are a good time to review where you are and figure out where you're going.

First, let's tackle the unglamorous high points:

Not so excellent about the newly minted credit card debt. The fastest way to begin building wealth is with a clean slate. At best, carrying a balance on your card keeps you treading water until the next Anthropologie (owned by Urban Outfitters (Nasdaq: URBN)) shopping spree pulls you under. At worst, as you've discovered, the balance can quickly balloon because of an unexpected interest-rate hike. We offer lots of advice on paying down debt, but the fastest way to bury that $5,000 ankle weight is to take on temporary part-time work until you pay it off. (No, not at a clothing store. Not even if you get a sweet employee discount. Especially not then...)

And finally, it's good that you're contemplating your financial future. Better to do so now before worry lines start to form. I've written before about the dance of saving while paying off debt. For you, I think that starting the habit of savings is important, particularly while time is on your side (and at age 30, which is the new 20!, it still is).

Wait! Don't click over to Bluefly yet.

What you really wanted was a number — something to justify skipping the mani-pedis and Nordstrom 's (NYSE: JWN) annual shoe clearance.

How does $59,000 sound? That's the kind of dough that can make you learn to love that at-home pedicure kit.

If you socked away the maximum allowable amount ($4,000) in an IRA this year and earned an 8% compounded annual return (the popular example rate-of-return according to the brokerage leaflets filling my mailbox), in 35 years you'd have nearly $60,000 and be eligible for Senior Discount Days at the mall.

Want another number? How does $1 million grab ya? If you managed to curb the urge to splurge from now until age 65 so you could add to your IRA kitty, you'd end up with more than $1 million, which could provide a glamour-girl-worthy retirement.

Advice for working girls

Before we get ahead of ourselves, let's back up and make a real savings plan with what's already hanging in your closet. As you whittle away at the student loan and work doubly hard to pay off the credit card, socking away $4,000 in a self-directed IRA this year may not seem doable. Luckily, someone close to you is willing to pick up part of the tab.

At The Motley Fool, we recommend that folks first check out their work-retirement plan. In your case, your boss makes it even more compelling by offering to help out. Given the 401(k) plan parameters you describe, someone earning $50,000 who opts to contribute 6% of her salary to the plan (which comes to $3,000) will get around $1,500 in "matching" funds from the boss. Holy cashmere!

At the very least, try to invest up to the point where you get the maximum amount in employer-matched funding. And remember, because your 401(k) is a tax-advantaged account, every dollar you contribute actually reduces your taxable income. So if you're in the 25% tax bracket, a dollar deposited in your retirement plan cuts your current tax bill by 25 cents. (Some employers allow you to invest post-tax dollars in your work retirement account, too, but unless you absolutely love your plan, it's probably best to invest that extra money in an outside account.)

Shop with purpose

Trust me, I know how hard it is to resist the urge to splurge. I face the temptations every day as I stroll past all the pretty stores on my way to work. That's why I often take the side streets.

But an even more effective way to change the course of your financial future is to tweak your world view of money. Ask yourself what role money should play in your life now, in

Continued on page 4

LAW SCHOOL LOANS
Lender Code: 834241
America's Top Law School Lender

Volume I, Issue 2
February 16, 2006

NEWSLETTER

the mid-term, and in your future. Perhaps what you want is security, happiness, work-life balance, and cute shoes. (I may be projecting, but those are some goals I can get behind.)

Missing one of those ingredients can throw the whole thing off kilter. For example, you can't really enjoy cute new slouchy boots if you don't have any short-term cash cushion. And you're not going to be happy if you only have long-term financial security but have to work so hard to get it that you never get a chance to go out and show off your duds.

Make do with a six pack for a while, and reserve the champagne for celebrating your milestones (paying off that credit card debt, kicking in a bit to your work retirement plan). But, remember, just a sip.

Tomorrow, I'll share some money-saving tips for cash-strapped glamour girls.

Got a money question? Dayana Yochim cannot answer all questions emailed to her, but the even smarter Fools on the discussion boards almost always do. Costco is a Motley Fool Stock Advisor recommendation.