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

Volume I, Issue 2
March 16, 2006

NEWSLETTER

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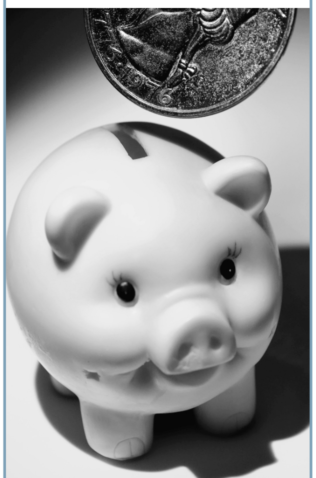

BLUEPRINT FOR FINANCIAL FREEDOM - DAYANA YOCHIM

Did you know that laying drywall together can make your marriage stronger? According to a 2003 survey by hand-tool maker Great Neck Saw Manufacturers, 54% of couples actually enjoy working with each other on home-improvement projects. And 9% of handy couples said that fixing up their homes together is — get this — *romantic*.

Twosomes could learn a few things about tackling money issues from this very unlikely source. (Take a moment now to picture your beloved sporting a perfectly worn leather tool holster and rugged flannel shirt, beaming at a job well done. OK, enough fantasizing.)

It's not too far of a leap to connect the similarities of home-improvement projects to other household chores, including managing the family finances. Both have the opportunity for big payoffs. Both have the potential to be fraught with frustrations. Both undertakings are designed to increase comfort, livability, and, in some instances, a lovely southern view. Neither is free from a certain amount of drudgery, anxiety, or opportunity, not to mention the risk of a few paper cuts or trips to the emergency room.

But in matters of money and small construction, four hands are always better than two. The old saw about measuring twice and cutting once can get dull if you're the one doing all the measuring and cutting.

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FEDERAL STUDENT LOANS VS. PRIVATE STUDENT LOANS

These days, there are very few students who can afford to pay for college without some form of education financing. Two-thirds of undergraduate students have some debt, and 88% of law students need to borrow to finance their education. Law school students may graduate with an average of $80,000 in student loans. Typically, law school students have acquired both federal and private debt, but what are the differences between these types of loans? And is one better than the other? Read on for an explanation of both categories of student loans.

Many students rely on federal student loans to help finance their education. The most common federal loan is a Stafford Loan. These may be issued directly from the government to the student, or they may be issued by a private lender, such as a bank or credit union, belonging to the Federal Family Education Loan Program (FFELP). Either way, these loans are guaranteed against default by the federal government.

Something else to remember about Stafford Loans is they may be subsidized or unsubsidized. If you are eligible for a subsidized Stafford Loan, the government will pay the interest while you are in school. Subsidized Stafford Loans are generally given to students who can demonstrate financial need. If you receive an unsubsidized Stafford Loan, you will be responsible for paying all of the interest, although you may have the payments deferred until after graduation. If you choose to defer paying the interest until after graduation, the interest will be capitalized, or added to the loan amount. To qualify for an unsubsidized Stafford Loan, you do not need to demonstrate financial need.

The amount of your Stafford Loan will vary depending on your year in school. However, graduate students may borrow up to $18,500 each year (with $8,500 being subsidized) with a combined limit for graduate and undergraduate federal loans of $65,500 for dependent students. If you are an independent

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student, the cumulative limit you may borrow is $138,500 for your graduate and undergraduate studies.

Stafford Loans have variable interest rates, based on the 91-day T-bill, and this interest rate is adjusted each year on July 1. Stafford Loans have an interest rate cap of 8.25%. All lenders offer the same base rate for Stafford loans because the interest rate is pre-determined by the government, although many lenders offer payment incentives and/or discounts to help you reduce your interest rate further. Another benefit of federal loans is you may lock in a fixed interest rate if you choose to consolidate your federal student loans. That way, you will not be affected by adjustments in the interest rate each year.

Students who use Stafford Loans to finance their education will also enjoy a six-month grace period before they begin repaying their loans. The grace period starts upon graduation or any time the student's enrollment status drops to below half-time. During this grace period, no payments for interest or principal are required. Additionally, in times of financial difficulty, students may be able to defer their payments or apply for a period of forbearance until their situation improves. Federal loans generally qualify for up to two years of forbearance over the life of the loan.

Private student loans have many differences from federal student loans. However, if used properly, they may also be effective tools for education funding. Private education loans are issued by lenders such as banks and credit unions. They are regulated by the federal government, but there are no guarantees against default.

The main difference between federal loans and private loans is that private loans are credit-based. This means that your eligibility is determined by your credit rating. Requirements do vary by lender, but most private lenders will allow you to use a cosigner, or co-borrower, to qualify for a private loan. Furthermore, private lenders may require proof of income from the student or a cosigner before the student is approved for a loan.

The amount you may receive from a private lender also varies. Oftentimes, the loan amount is based on an amount set by your school. However, some private lenders set their own limits and allow students to use the funds for whatever financial needs the student may have. This includes housing, transportation, purchasing a computer, tuition, etc.

Another difference between federal and private student loans is in interest rates. Generally, private loans will have a higher interest rate than federal loans, and the interest rate for private loans will always be variable, even after consolidation. Also, the student's (or cosigner's) credit score may have an effect on the interest rate. Many private lenders start at a prime interest rate and then add a margin depending on the credit score. If the borrower does not have good credit, the interest rate will be higher.

Repayment plans also differ by lender for private loans. However, private lenders may not offer benefits such as forbearance or deferment in times of financial hardship. They also may not offer a grace period, and some private lenders require that the interest payments be made while the student is in school, although most lenders have repayment options to allow deferment of the principal until the student graduates. Also, like federal loans, the repayment term is often 10 or more years for private education loans.

If you are a student, plan to become a student, or are a parent of a student, it is important for you to understand your education-funding options. Private and federal loans may be effectively used in combination to fill in the financial gaps. Regardless of the type of loan you use, remember that it is not free money and it must be repaid. Choose your lender carefully, and weigh your options. After all, you will likely be repaying your education loans for many years to come.

Blueprint For Financial Freedom countinued from page 1

THE BLUEPRINT FOR FINANCIAL DREAMS

Bill and Akaisha Kaderli, frequent Fool.com contributors, were like most couples working long hours at the office in the hopes of someday celebrating their successes with a cushy retirement. But retiring "early" at age 55 meant that they would have to carry on working 60- to 80-hour work weeks for another 20 years.

They decided that their present happiness was just as important as their future well-being. Actually, Bill was the one who decided that a dramatic shift was due. It took a bit of negotiating and number-crunching to get Akaisha on board with the plan to leave the rat race and travel the world.

The difference between construction and financial affairs is that matters of the heart tend to have more fluid rules. (You probably don't want to test the accepted rules of positive-negative charges when it comes to handling wiring.) Just because there are black and white numbers in your checkbook, that doesn't mean you can treat this topic with black and white answers. Consensus is key if you want your union to last till death do you part.

Akaisha describes the negotiations in their household this way: "Bill was like a bulldog with a chew toy — a bulldog who also knows how to crunch numbers.

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He's the one who sat down, simplified our personal infrastructure from a what-does-this-cost-us point of view, and then laid out his findings to me."

To avoid coming to blows, consider treating your finances as you would a fixer-upper. Come up with a master plan for your family's future — together. Tackle big projects (saving for retirement) and small ones (cutting down the entertainment budget) — together. When you keep the ultimate payoff in mind (and perhaps a few snapshots of your retirement manse on the fridge), developing a shared vision of what could be is that much sweeter.

For the Kaderlis, the vision of what could be was leaving the rat race at age 38 and traveling the world. And that's exactly what they've been doing since 1991. But getting there was nothing short of a major financial reconstruction. Says Akaisha, "Neither of us could have created this unique lifestyle alone. Both of us had to be willing to endure growing pains and come back to the discussion table again and again."

DO THE PREP WORK

Before any renovation project — whether it's retiring at age 38 or paying off the house early — there's a certain amount of prep work to be done. Having a clear financial goal and a dedication toward reaching it are key.

Start off by thinking of money as opportunity. The best things in life are indeed free — like catching the twinkling eye of your Sig. O across the room at a cocktail party. All other things require cash. Don't avoid the topic of finances just because you think it's unromantic. Instead, start your money conversation by discussing your dreams. Maybe you both pine for an early retirement, a summer home, sending the kids to your alma mater. Next, start brainstorming ways to align your finances with your life goals.

As you lay out your project, play to your strengths. Who's better at bargain shopping? Which one of you has a knack for researching things online? Answer these questions, and you've started to form your plan of attack.

Don't use trouble spots as an excuse to give up. According to the Great Neck survey, 6% of couples say that they fought like cats and dogs during their home renovations. Their main complaints? A full 20% think that their partner can be too bossy, and 16% said their partner is too much of a perfectionist. When things get heated and nerves frazzled, take a break and approach the project with fresh eyes and a full night's rest. Oh, and try not to be a bossy perfectionist.

Finally, divide and conquer. This is the old "I'll cook if you do the dishes" rule at play. Even if one of you is giddy with excitement over balancing the checkbook or reviewing your insurance needs once a year, it takes two to make your financial whoopee work. That may mean that one person does most of the heavy lifting when it comes to money matters while the other picks up the slack in other areas of household management.

With the tarp rolled out and the kids packed off to the babysitter, it's time to don your grubby clothes and get to work.

SPRUCE UP THE EXTERIOR

A little superficial housekeeping can go a long way to improving your living conditions. Just finished your taxes? What a great time to dig a little deeper into your financial files! Bill and Akaisha started with a simple piece of paper and tracked their day-to-day expenditures. From there, they extrapolated and developed a financial snapshot with more perspective. That was the jumping-off point for their financial overhaul.

PERFORM A PATCH TEST

Don't you hate it when that perfect shade of celadon on the 1-inch-by-1-inch sample turns into what your brother-in-law affectionately refers to as "the puke-green room?" Before you go hog-wild rearranging your finances, run through a few scenarios. What would happen if you were forced to live off one salary for six months? How much would it pay off in the future to increase your contribution to your work retirement plan by 3%?

Bill and Akaisha figured out that they could sustain their dream early retirement on $24,000 a year. Here's more on how they came to that conclusion. Borrow and outright steal from their plan the parts that best serve your financial goals.

PICK ONE PROJECT AT A TIME

In home renovation, it's all about increasing the resale value of your abode. In finances it's, well, getting the most bang for your buck — the "bang" being enjoyment and peace of mind. Whether it's retirement savings, paying down debt, or adding to your child's college savings, concentrate first on one area that'll give your family the biggest payoff. After that, tackle your next project with the same zeal.

LEAN ON YOUR PARTNER

Couples said that one of the most satisfying parts about working together on home-

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improvement projects is proving that they could work together, according to the Great Neck survey. And while wielding sharp objects, no less. Ah, togetherness.

One of the hardest parts about Bill and Akaisha's unconventional retirement was dealing with the emotional component of their decisions. They faced times of uncertainty in their journey, but together they made it through by constant assessment, research, and reaching out to others who were on the same path.

DON'T BE SHY ABOUT CALLING FOR BACKUP

Asking for reinforcements is not a sign of failure. But before you cede any financial decisions to others, do your homework. You wouldn't hire an electrician without calling his references. Same goes for your financial pros.

Do you want to retire early, or just avoid working for the rest of your life? Be sure you're on target toward reaching your retirement goals by taking a 30-day free trial subscription of our Rule Your Retirement *newsletter service. Or renew your subscription and get a copy of* Stocks 2006 *free.*

Dayana Yochim has a way with a staple gun, although she has never been described as "handy" around the house. Otherwise, you can bet she'd tout that in her Fool disclosure.