DEBT MANAGEMENT EXERCISE

STEP 1.

Box 1 is a calculation example of total loan indebtedness.

Use Box 2 to calcualte your total loan indebtedness. Include your current outstanding loans and any new amounts you plan to borrow.

NOTE: This calculation assumes that the interest rate on all your student loans is the interest cap amount of 8.25%. It also assumes that you will repay your loans using the standard 10 year repayment plan. The current interest for all unsubsidized Stafford loans first disbursed on or after July 1, 2006 is fixed at 6.8% The interest rate for subsidized Stafford loans first disbursed on or after July 1, 2008 is fixed at 6.0%.

BOX 1

Calculation Example

Direct/FFEL Subsidized:	**$10,000**
Direct/FFEL Unsubsidized:	+ **$10,000**
GRAD PLUS:	+ **$50,000**
TOTAL LOAN DEBT:	= **$70,000**
Divide the total loan debt above by 1000:	**$70,000 / 1000 = 70.00**
Multiply the results above by 12.27:	**70.00 x 12.27 = $858.90**
ESTIMATED MONTLY LOAN DEBT:	= **$858.90**

BOX 2

Monthly Loan Payment With Additional Borrowing

Tuition, Fees, and Books:	
Living Expenses Requested:	
Current Loan Debt:	+
TOTAL NEW LOAN DEBT:	=
Divide the total loan debt above by 1000	÷
Multiply the results above by 12.27:	x
ESTIMATED MONTHLY LOAN PAYMENT WITH ADDITIONAL BORROWING:	=

This exercise does not include Perkins loans owed at 5% interest. Your current Perkins loan indebtedness is: $

The loan that may be offered will be determined based on the cost of tuition, fees and books for the number of credits you actually register.

You must be registered at least half-time in courses required to complete your program.

STEP 2

Box 3 is a calculation example of annual monthly income.

Use Box 4 to calculate your expected monthly income after graduation. Do not include spouse's income (if applicable) in the calculation.

NOTE: For accuracy, subtract other debts to derive your true monthly income.

BOX 3 : *Annual Income*

Your 2008 annual income:	**$30,000**
Divided by 12:	**$30,000 / 12**
TOTAL MONTHLY INCOME:	= **$2,500.00**

BOX 4: *Expected Annual Income After Graduation*

Your annual income after graduation:	
Divided by 12:	÷
TOTAL MONTHLY INCOME:	=

NOTE: The median annual starting salary for college graduates is $30,000.

At the master's degree level in Maryland, the average annual starting salary offer for business disciplines is $60,000 and $40,000 for education disciplines.

STEP 3.

Box 5 is a calculation example of monthly income allocated to pay a monthly loan payment.

Use Box 6 to calculate the amount of your anticipated income after graduation that will be used to pay your expected monthly loan payment (including any additional amount being requested).

BOX 5:

Current Monthly Income Used to Pay Monthly Loan Debt

Divide your monthly loan payment in Box 1 by your monthly income in Box 3:	**$858.90 / $2,500.00 = 0.34**
Multiply the Results by 100:	**0.34 x 100**
Percentage of monthly income used to pay your loan debt:	= **34 %**

BOX 6

Anticipated Monthly Income After Graduation Used to Pay Your Monthly Loan Debt

Divide your monthly loan payment in Box 2 by your anticipated monthly income in Box 6:	
Multiply the Results by 100:	x
Percentage of monthly income used to pay your loan debt:	= %

Based on this exercise, you will need to determine if additional borrowing is feasible.

***NOTE**: It is recommended that **you kept your debt to income ratio around 8%** so that you have more discretionary income available for rent, food, transportation, and other related expenses.*

According to the results of this calculation, the student in this example would have difficulty paying his/her student loan. Remember, this calculation does not include any other indebtedness or monthly obligations.

HOW MUCH SHOULD I BORROW?

While borrowing from the student loan program may seem like a viable option, the decision to borrow requires careful thought. When making the decision on how much to borrow, it is important to consider your financial goals and resources. Keep your current or anticipated outstanding loans, credit card debt, and other financial obligations in mind. Remember that eventually you will have to repay your student loan. Try to borrow only what you need for the academic year and be conservative when possible. Our typical student borrows only enough to cover tuition, fees, and books, although you may borrow up to the cost of attendance. The cost of attendance is an estimate of a student's education expenses (based on full-time status), and is included in the school's standard budget for the period of enrollment.

Only you can determine the amount you need to borrow. ***However, the financial aid administrator is federally mandated to complete debt management counseling and may refuse to certify a loan request amount. If your loan is refused, you will be notified of the reason in writing.***

The chart below represents an example of your possible repayment obligation:

Amount Owed (Entering Repayment)	Monthly Payment	* Annual Payment	Estimated Total Repaid (With 8.25% Interest)
$ 2,500	$ 50	$ 600	$ 3,074
5,000	61	732	7,359
7,500	92	1,104	11,039
10,000	123	1,476	14,718
15,000	184	2,208	22,017
20,000	245	2,940	29,437
25,000	307	3,684	36,796
30,000	368	4,416	44,155
40,000	491	5,892	58,873
50,000	613	7,356	73,592
75,000	920	11,040	110,387
100,000	1,227	14,724	147,183

NOTE: payments are calculated using the maximum interest for student borrowers at 8.25%. These estimates are based on the Standard Repayment Plan and assume that all payments will be made on time. If you choose another repayment option, your monthly payment maybe lower, but the total paid over the life of the loan will be greater than these estimates. **Be a savvy consumer**! As a reminder, accrued but unpaid interest will be added to your principal balance Avoid capitalized interest by pay interest accrued on your loan(s) while you are in college and before the end of your grace period. Also, you can substantially reduce your total borrowing costs by prepaying some of the principal balance owed. You do not incur penalties for prepaying your student loans.
**Reduce your net salary annually by this amount until your loan is repaid.*

HOW MUCH IS TOO MUCH?

Please complete the exercise on the reverse to help you determine how much is too much to borrow. After completing this exercise, you will be able to determine the percentage of your expected monthly salary going to payment of your loans.
If the percent of your salary allocated to pay your loan(s) is:

Less than 5%	You should have no problem paying off your student loans and are in good position to borrow more money for graduate school, if necessary.
5 to 8% CAREFUL!	You are still in good shape, but you need to be careful. If you borrow more, try to keep your percent of salary going to loans around 8%.
8 to 10% WARNING!	**You have borrowed as much as you can manage to repay without significant sacrifices in other parts of your budget.** Consider using an alternative payment plan, (i.e., tuition payment plan) at least until your salary increases. These plans will lower your monthly payment but raise the total amount you will have to pay over the life of your loan. Think about paying down your undergraduate loans before incurring any additional debt for graduate school.
Over 10% DANGER!	**It will be difficult for you to make your monthly payments**. Contact your lender or financial aid office for more information on available payment plans.