FROM THE EDITORS OF MONEY MAGAZINE

COLLEGE PLANNER
Money

SMART WAYS TO BORROW FOR COLLEGE

Seven in 10 undergraduate students today borrow to finance their education. Their average debt upon graduation is more than $30,000. This checklist can help you find the best loans and not take on more than you can afford.

HOW MUCH TO BORROW

ESTIMATE YOUR EARNING POWER

As a general rule, you should not borrow more than you expect to make during your first year of work. To estimate how much you're likely to earn, check early-career salaries by school at collegescorecard.ed.gov or industry-specific ones at the Bureau of Labor Statistics (bls.gov).

ADD UP YOUR AVAILABLE ASSETS

Determine how much you can afford to pay for college from your 529 plan and other savings. Ideally, that should cover about a third of your costs. Also consider how much you can pay out of current income.

TARGET SCHOOLS YOU CAN AFFORD

Once you know how much money you have available for college plus how much debt you can handle, compare the "net price," after scholarships, of the schools that interest you at money.com/collegetools. That will show you which colleges are in your price range.

BEST LOANS FOR STUDENTS

START WITH UNCLE SAM

Federal student loans, which you don't have to pay back until you leave school, are your best choice, with no income or credit requirements and repayment terms that can be tied to your future income. The most you can borrow varies from $3,500 to $7,500 a year. The interest rate was recently 4.3%.

PLAN TO PAY AS YOU GO

Subsidized federal loans cover the interest on your loan until you graduate, while unsubsidized loans charge interest from the day you borrow. You'll save big in the long run if you pay the interest on unsubsidized loans while you're still in school. Learn more at studentaid.gov.

TAKE PRIVATE LOANS LAST

Private loans can have lower interest rates but lack the flexible repayment terms of federal loans, so they shouldn't be your first choice. You can compare loans at edvisors.com.

BEST LOANS FOR PARENTS

FILL GAPS WITH PARENT LOANS

Federal Parent PLUS loans are easy to obtain but expensive, with recent interest rates of 6.8% and first-year fees of 4.3%. Consider PLUS loans only after your child has reached the limit for federal student loans. (If need be, you can help your child repay those loans.)

WEIGH OTHER LOAN SOURCES

For parents who own a home and have good credit scores, a home-equity loan or line of credit is another option. They currently offer lower interest rates than PLUS loans, about 4.5%.

KNOW THE RISKS

Both PLUS and home-equity loans have potential drawbacks worth noting. Because PLUS loans let you borrow the full cost of attendance, it's easy to get in too deep. With home-equity loans, you could be putting your home at risk if you can't repay. So consider your job security and other financial resources before you borrow.