

Parent Guide to Paying for College

Getting Your Money

FROM THE RIGHT PLACE

When it comes to college funding, you have lots of options. What's best for you and your child's needs? Use the following charts to help you decide. You can also find helpful information at commercebank.com/learn.

Savings Options

Even as your child heads off to school, you may want to consider either re-allocating your savings or starting a new account for future use.

Comparing Common Educational Savings Options

529 Plans*	A college savings plan that allows you to invest on a tax-advantaged basis in order to fund future college and graduate school expenses of a child or other beneficiary
Coverdell IRAs*	An education savings account with new higher contribution limits that can be used for private, elementary and secondary education as well as for college
UGMA & UTMA Custodial Accounts	The Uniform Gift to Minors Act (UGMA) established a simple way for a minor to own securities without requiring the services of an attorney to prepare trust documents or the court appointment of a trustee. The terms of this trust are established by a state statute instead of a trust document. The Uniform Transfer to Minors Act (UTMA) is similar, but also allows minors to own other types of property, such as real estate, fine art, patents and royalties, and for the transfers to occur through inheritance. UTMA is slightly more flexible than UGMA.
Savings Bonds	US Savings Bonds offer a low-risk and modest return investment for saving for your children's college education. Series EE Savings Bonds and Series I Savings Bonds offer special tax benefits when used for qualified education expenses.

*Investment products are not FDIC-Insured – May lose value – No bank guarantee

Parent Borrowing Options

PLUS Loans, Home Equity Lines and other funding options each have their advantages. The chart below should help you get an idea of what may work for you. More information is also available at commercebank.com/learn. You can also get help with your decision by calling or visiting us in person.

	PLUS Loan	Home Equity Line of Credit	Fixed Rate Home Equity Loan	Personal Line of Credit	Credit Card
What you want in a borrowing option	Funds for a dependent child's undergraduate education costs with flexible repayment options	A reusable source of funds, with low minimum payments and a variable rate	Funds for a specific use, with fixed payments for a fixed period	A re-usable source of funds	Flexibility, hassle-free access, rewards
Is the interest tax deductible?	Yes*	Yes*	Yes*	No	No
How does the interest rate work?	Fixed as of 7-1-06 (variable rate for loans disbursed prior to 7-1-06)	Variable – may change monthly	Fixed at the time of loan closing.	Variable	Variable

Call, click, or come by your nearby Commerce Branch so we can help you decide which borrowing solution is best for you.

* Consult your tax advisor.

Lender Code: #813979



Student Options:

Maybe a loan designed specifically for students best meets your family's needs. The following information can help you decide.

Federal Family Education Loan Program (FFELP) loans are provided by private lenders, such as banks, credit unions and savings & loan associations. These loans are guaranteed against default by the federal government.

Federal Subsidized Stafford Loan	<ul style="list-style-type: none"> • Eligibility is based on financial need. • The federal government pays the interest for students while they are continuously enrolled in school at least half time, during grace period, and during periods of authorized deferment. • Repayment period is 10 years.
Federal Unsubsidized Stafford Loan	<ul style="list-style-type: none"> • Eligibility is not based on financial need. • Students are responsible for paying all interest, which begins to accrue as soon as the loan is disbursed. Students may choose to pay the interest as it accrues or defer it as long as they are enrolled at least half time, during grace period, and during periods of authorized deferment. • Repayment period is 10 years.
Grad PLUS Loan for graduate and professional students	<ul style="list-style-type: none"> • Must have applied for the annual loan maximum eligibility under the Stafford Loan program (subsidized and unsubsidized) • Student is responsible for paying all interest, which begins to accrue as soon as the loan is disbursed. • Repayment begins 60 days after second loan disbursement. Repayment can be deferred while student is enrolled at least half time. • Repayment period is 10 years.
Consolidation Loan	<ul style="list-style-type: none"> • Loan that combines one or more student loans into a new loan at a fixed interest rate. • Features one payment and one lender. • Interest rate is a weighted average of the interest rates for the loans being consolidated and is rounded up to the nearest one-eighth of 1 percent. • Flexible repayment terms – up to 30 years.
Perkins Loan	<ul style="list-style-type: none"> • Awarded to undergraduate and graduate students with exceptional financial need. This is a campus-based loan program, with the school acting as the lender using a limited pool of funds provided by the federal government. It is a subsidized loan, with the interest being paid by the federal government during the in-school and 9-month grace periods. There are no origination or guarantee fees, and the interest rate is 5%. You have a 10-year repayment period. • The amount of Perkins Loan you receive is determined by your school's financial aid office.

Private Loans

Alternative Loans	<p>The federal government does not guarantee alternative student loans. Instead, various private lending institutions have developed these loans as a means to help students meet their educational costs. Since the student borrows the alternative loan, he or she is responsible for repaying the debt. The characteristics of these loans are usually very different from federal student loans. For example:</p> <ul style="list-style-type: none"> • These loans are credit-based, and your student may not have enough credit of his or her own, which would require him or her to have a co-signer. • The interest rate typically is based on the student's credit rating, so it may be high. • The origination fees may vary, but typically are higher than those of federal student loans. • Most do have flexible repayment plans; however, postponement options are limited. • Some, but not all, alternative loans do offer grace periods. • There is no interest subsidy on any of the alternative loans, so your student is responsible for repaying all of the interest, including the interest that accrues while he or she is attending school. • You cannot consolidate these loans into a Federal Consolidation Loan.
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Other Funding Sources

College Work Study Programs	<ul style="list-style-type: none"> • Designed to help students pay college expenses by providing jobs. The financial aid office posts job openings, helps arrange interviews, recommends a work schedule and monitors earnings. • Salaries usually based on the current minimum wage. • Earnings limited to the financial aid awarded.
Pell Grants	<ul style="list-style-type: none"> • Largest of the federal government's free-gift programs. • Individual schools administer the program and may set early deadlines.
Scholarships	<ul style="list-style-type: none"> • Money awarded to help pay college expenses that does not have to be repaid. • Check out scholarships at a great web site: FASTWEB.com

Comparing Student and Parent Options

How do things look side-by-side? What works best for you? We've put together this table that highlights information to help. You can also visit the Commerce Bank Learning Center at commercebank.com/learn, call or visit us in person for more assistance.

	Stafford Loan		PLUS Loan	
	Subsidized	Unsubsidized	Parents	Graduate and Professional
Availability	Available to students, based on financial need, enrolled at least half time in a federally approved program of study	Available to students regardless of financial need who are enrolled at least half-time in a federally approved program of study	Available to parents of dependent undergraduate students who are enrolled at least half time in a federally approved program of study	Available to graduate or professional students who are enrolled at least half time in a federally approved program of study
Borrowing Limits	Federal Stafford Loan Maximums¹			Total cost of attendance minus financial aid Example: \$ 18,000 cost of school - 3,000 financial aid received <hr/> \$ 15,000 available
	Dependent Undergraduates²	Subsidized	Total (Subsidized & Unsubsidized)³	
	First Year	\$2,625	\$2,625	
	Second Year	\$3,500	\$3,500	
	Third Year and beyond	\$5,500	\$5,500	
	Independent Undergraduates (and dependents whose parents are unable to borrow under the PLUS program)	Subsidized	Total (Subsidized & Unsubsidized)³	
	First Year	\$2,625	\$6,625	
	Second Year	\$3,500	\$7,500	
	Third Year and beyond	\$5,500	\$10,500	
	Graduate and Professional Students	Subsidized	Total (Subsidized & Unsubsidized)³	
	All Years	\$8,500	\$18,500	
		AGGREGATE LIMITS (Limit of all loans combined)		
	DEPENDENT UNDERGRADUATES	Subsidized	Total (Subsidized & Unsubsidized)	
		\$23,000	\$23,000	
	Independent Undergraduates	\$23,000	\$46,000	
Graduate Students	\$65,000	\$138,500		
Interest Rate	Fixed interest rate of 6.80% (effective July 1, 2006).		Fixed interest rate of 8.50% (effective July 1, 2006) (variable rate for loans disbursed prior to 7-1-06)	
Is a FAFSA filing required?	Yes		No Yes	
Is Credit Verification required?	No		Yes Yes	
Repayment Terms	10 Years		10 Years 10 Years	

¹ Certain health profession students may qualify for higher limits.

² All undergraduate annual loan limits are subject to proration.

³ If the borrower does not have financial need for a subsidized Federal Stafford Loan using Expected Family Contribution (EFC), OR has reached the aggregate limit in Subsidized Federal Stafford Loans, the borrower may receive up to and including this entire amount in Unsubsidized Federal Stafford Loans assuming he or she has remaining eligibility for the loan.

Repayment

Any informed loan decision should be made with repayment terms in mind. While different loans can involve different payment plans and terms, following are examples of PLUS Loan repayment terms.

Based on a Standard 10-Year Monthly Repayment Plan

If your loan amount is:	Your monthly payment is:		
	At interest rate of 5%	At interest rate of 6.8%	At interest rate of 8.5%
\$1,000	\$50.00*	\$50.00*	\$50.00*
\$5,000	\$53.03	\$57.54	\$61.99
\$7,000	\$74.25	\$80.55	\$86.78
\$10,000	\$106.07	\$115.08	\$123.98
\$15,000	\$159.10	\$172.62	\$185.97
\$20,000	\$212.13	\$230.16	\$247.97
\$25,000	\$265.16	\$287.70	\$309.96

**Minimum monthly payment = \$50 or amount of interest accruing each month.*

Questions?

- Call the Education Loan Specialists at Commerce (1-800-MONEY:101).
- Get more information and planning resources at the Student Services Learning Center at commercebank.com/learn.





Tax Considerations

Can you save money on your child's education by taking advantage of certain tax breaks? Quite possibly. Most scholarships are not taxed, others offer tax breaks and some loans could offer you deductions. While they may be subject to income limitations and changes in tax laws, you should be aware of these factors*:

Tax-Free Benefits provide tax-free help with education expenses for qualified students, although they may be subject to income limitations:

- **Scholarships**, fellowships, etc. are usually not taxed
- **Coverdell Education Savings Account (ESA)** can be set up for beneficiaries under the age of 18
- **Qualified Tuition Programs** are sponsored by states or educational institutions
- **Education Savings Bonds** interest may be tax-free
- **Employer-provided educational assistance** up to \$5,250 per year may be tax-free
- Some states offer tax benefits and/or loan forgiveness programs for teachers holding student loans.

Tax Credits directly reduce tax liability, but phase out as income rises


- **Hope Scholarship Credit** – May be claimed for students in their first two years of post-secondary education who are enrolled at least half time. The maximum benefit per student, per tax year is \$1,500
- **Lifetime Learning Credit** – Each taxpayer may claim an annual credit of up to 20% of the first \$10,000 (maximum of up to \$2,000 annually) for out-of-pocket education expenses at eligible educational institutions

Tax Deductions lower your taxable income, but may be subject to income limits

- **Student Loan Interest Deduction** – Interest paid on qualified educational loans may be deductible, up to a maximum of \$2,500
- **Tuition and Fees Deduction** – Up to \$4,000 may be taken for a student for whom no other education tax benefits are claimed, when other income and usage requirements are met

**Consult a tax advisor for details. IRS Publication 970, Tax Benefits for Higher Education, explains these credits and other tax benefits.*

Commerce Bank has more than 40 years experience in helping parents help their children achieve their higher-education goals. Hopefully, these charts have helped you weigh your options. If you need more information or have not found a solution that meets your needs, just call us at 1-800-Money:101 for friendly, knowledgeable assistance with your college funding questions. We'll be happy to use our experience to make your child's learning experience an A+.



GLOSSARY

WHAT'S A FAFSA? A MPN? The world of student loans is filled with acronyms and terms that you may or may not be familiar with. To help, following is a list of some common terms and how they might apply to your situation.

Capitalized Interest

Unpaid interest added to the principal balance of a loan, which increases the total outstanding balance due.

Default Fee

A fee charged by a guarantor for each loan guaranteed.

Deferment

A period during which a borrower, who meets certain criteria, may suspend loan payments. For some types of loans, the federal *government pays the interest during a deferment*. On others, the interest accrues and is capitalized and the borrower is responsible for paying it.

Endorser Form/Co-Signer

A signer of a promissory note who is secondarily liable for a loan obligation (i.e., who agrees to pay if the borrower does not). A lender may require a federal PLUS borrower with adverse credit to obtain a creditworthy endorser/cosigner.

E-Sign (Electronic Signature)

E-Signature is an online consent and agreement between a lender and a borrower that has the same validity as a written signature. E-Signature eliminates the need for paper and postage, so it's the quickest and simplest method for completing a Master Promissory Note (MPN).

EFC (Expected Family Contribution)

The amount the federal government expects the student and his or her family to contribute to the cost of attendance, based on the family's income and assets as reported in the FAFSA.

Financial Aid Awards

Money provided to the student and the family to help them pay for the student's education. Major forms of financial aid include gift aid (grants and scholarships), and self-help aid (loans and work study).

Forbearance

A temporary delay or reduction of loan payments agreed to by the lender and borrower. Interest continues to accrue during forbearance.

FAFSA (Free Application for Federal Student Aid)

The application for federal student financial aid, including grants, loans and work-study. Many colleges and states also require the FAFSA for non-federal financial aid applications.

Graduate PLUS Loan

Effective July 1, 2006, Grad PLUS Loans are federal loans for graduate or professional students that can cover up to the total cost of a graduate/professional education minus the amount of other aid received. Students must have applied for their annual loan maximum eligibility under the Federal Subsidized and Unsubsidized Stafford Loan Program.

MPN (Master Promissory Note)

The Federal Family Education Loan Program (FFELP) form required in order to receive your Stafford or PLUS Loan funds. The MPN is the formal written agreement to repay the education loan.

Notice of Loan Guarantee and Disclosure

Will show loan amount and projected disbursement dates for PLUS Loans. Disclosure provides key information about borrower responsibilities and repayment options.

Parent PLUS Loan:

Parent Loans for Undergraduate Students are federal loans for parents that can cover up to the total cost of a dependent child's undergraduate education minus the amount of other aid received. PLUS Loans are available to creditworthy parents regardless of financial need.

PIN (Personal Identification Number)

Parent Loans for Undergraduate Students are federal loans for parents that can cover up to the total cost of a dependent child's undergraduate education minus the amount of other aid received. PLUS Loans are available to creditworthy parents regardless of financial need.

SAR (Student Aid Report)

The report that will be sent to you after completion and processing of your FAFSA. It details the amount of funding for which your student is eligible.

Subsidized Stafford Loan

Available to students, based on financial need, enrolled at least half time in a federally approved program of study.

Unsubsidized Stafford Loan

Available to students regardless of financial need who are enrolled at least half time in a federally approved program of study.

1-800-MONEY:101 (1-800-666-3910)

commercebank.com/money101

Lender Code #813979



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