

The Real Cost of a Latte

Understanding the Role and Impact of Interest

If you buy something with a credit card and don't pay the bill in full, you pay interest. Interest adds to the overall cost of an item if you allow it to accrue. For example, if you pay for a daily latte with a credit card and don't pay the bill in full at the end of the month, what does that daily latte really cost?

The same idea applies if you pay for a daily latte with money from your Federal student loans. The table below illustrates the real cost of buying that daily latte if you used Unsubsidized Federal Stafford Loan funds to pay for it.

	2 Years in School	3 Years in School	4 Years in School
Daily cost	We assume each latte costs \$5.		
Lattes in a week	You buy 5 lattes during a week.		
Cost per week	\$25 for a \$5 latte every day of the week.		
Weeks in a year	There are 52 weeks in a year.		
Cost per year	\$1,300 (principal per year)		
Total cost	\$2,600	\$3,900	\$5,200
Annual interest rate*	6.21% (make sure you check the interest rate for your loan type.)		
Repayment term	120 months		
Estimated increase in monthly payment**	\$29	\$44	\$58
Total interest you'll pay	\$897	\$1,346	\$1,794
Total actual cost (principal + interest)	\$3,497	\$5,246	\$6,994

*The calculations above are for illustrative purposes only using the student loan calculator at AccessGroup.Org/Calculator. This scenario utilizes the Federal Direct Unsubsidized student loan interest rate of 6.21% that applies to new loans made on or after July 1, 2014 and before June 30, 2015. Your actual monthly payment amount will be determined by your loan servicer and will depend on factors such as disbursement date and number of disbursements, the specific interest rate of each individual loan, and your actual loan balances.

**\$50 is the minimum monthly payment on a Federal student loan.



Becoming a Wise Borrower

When using Federal student loans (or with any form of credit), you are paying for that item with *your future income!*

When using credit, ask yourself these questions:

- Do you know your student loan interest rate?
- Do you know what impact (cost) interest will have for each loan you borrow?
- Do you know how interest costs will change under the different Federal student loan repayment options that are available?
- Will you be able to afford your total loan repayment obligation?
- What will the impact of your total loan obligation be on the rest of your monthly budget? Would you rather have that money for something else?
- Are you able to borrow less? Are there areas in your monthly budget where you can spend less and save money?
- Are you able to make interest payments while in school in order to reduce future loan costs?
- Do you know how to find your Federal student loan servicer by visiting the National Student Loan Database at NSLDS.Ed.Gov?

Whether you're considering graduate school or you've already graduated, visit our loan and budgeting calculator at AccessGroup.Org/Calculator.

