

## Kids Can Repay Mom & Dad for College

*Taking out a federal loan for parents is a great way to borrow for college. But how can you ensure your child pays you back for the money you borrow?*

By Janet Bodnar

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*Our daughter is a freshman biology major and intends to enter the pharmacy program. If she stays the course, she could have a financially rewarding career. We don't qualify for financial aid and we've been focusing on saving for retirement. So to pay for college she took out a federal Stafford loan, and we took out a parent loan through the federal PLUS program (Parent Loan for Undergraduate Students). Our agreement with our daughter is that she will repay us once she graduates and gets settled in her career.*

*But that's a leap of faith. Is there a better way for her to borrow in her own name that doesn't put our credit and retirement savings at risk? Would it help if she declared her independence from us?*

Your current strategy is a good one. [Federal Stafford loans for students](#) and [PLUS loans for parents](#) are the best ways to borrow for college. They carry attractive fixed rates -- 6.8% for Stafford loans and 8.5% for PLUS loans.

Yes, you are making a double leap of faith in your daughter -- that she will have a lucrative career as a pharmacist and that she'll follow through on her agreement to repay you. But if you and she have a good relationship, it's not unreasonable.

If you have any doubts, you could set up a formal agreement and a repayment schedule through [CircleLending](#). For a fee, CircleLending will prepare the paperwork, send statements, track payments and even report your daughter's repayment record to a credit bureau.

Having your daughter declare her independence isn't an option. To qualify as an independent student she must meet one of the following criteria: be age 24 or older; be an armed-forces veteran; be married; be a graduate student; have a legal dependent other than a spouse, or be a ward of the court.

## Saving for grad school

*I am a college sophomore and plan to enroll in graduate school in the fall of 2009. What's the best way for me to save for grad school? Could I use a 529 plan, or are those only for undergraduate expenses?*

You could use a 529 plan to pay for graduate school, but it probably isn't the best option in your case.

As a college student with a relatively low income, you wouldn't benefit from the tax breaks associated with 529 plans. And because you have such a short time frame, the money would have to be invested

conservatively. A simpler and more flexible plan would be to keep your money in a high-rate savings account at an online bank, such as [HSBC Direct](#).

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