A Guide to Paying Off Your Dreaded Tuition Fee Loan

Description



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Today I wanted to take some time out to write about a matter close to my heart and which some of you might find yourself stuck with â?? repayment of the Tuition Fee Loan (TFL).

My sister graduates this year, which means she has to start paying back her loans soon enough. The zero interest rates offered by the local TFL for university studies are attractive enough, but a real pain to pay off once the actual interest rates kick in. We went to enquire last week, and the current rate is at 4.75%.



Hereâ??s my calculations, based on the current bank interest rate of 4.75%:

The minimum monthly repayment required from the bank is $100, which means you can get away with paying just $100 a month for as long as it takes. I know of some friends who are â??taking advantageâ?• of this, but do not realize that the bank is actually gaining more money when they do so. Hereâ??s why:

Scenario 1: Paying at minimum of $100 per month

	Year 1	Year 2	Year 3
Total Sum Owed	$24,000	$21,845	$21,683
Annual Interest	$1,045	$1,038	$1,030
Minimum Yearly Repayment	$1,200	$1,200	$1,200

Principal Loan Sum Left to Pay Off	$21,845*	$21,683	$21,513

**Amount after deducting yearly repayment from [sum borrowed + interest]*
After 3 years, you would have paid a total of $3,600 but only managed to reduce your total sum owed by $2,487! Paying at the minimum means $1,113 was paid in interest alone to the bank.
Letâ??s consider if you decide to be a bit more frugal in the first few years in order to pay off your loan as quickly as possible, and increase this by 5x.

Scenario 2: Paying $500 per month

	Year 1	Year 2	Year 3
Total Sum Owed	$24,000	$19,045	$13,950
Annual Interest	$1,045	$905	$663
Minimum Yearly Repayment	$6,000	$6,000	$6,000
Principal Loan Sum Left to Pay Off	$19,045	$13,950	$8,613

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As you can see, it is a lot wiser to cut back on expenses in the beginning and **focus on paying off your TFL as fast as you possibly can to avoid the interest rate accumulating.**

For illustration, I simplified the calculations by presuming that interest rates are only calculated *yearly,* but the reality is that the banks calculate this *monthly.* Which means that thereâ??s a lot more dollars and cents that Iâ??ve not factored into my above calculations.

The truth is, the calculations are a lot more complex than this. When I called up OCBC to enquire about this matter, even their customer service rep could not answer me over the phone. He said it was â??too complex to explain over the phoneâ?• and that even he himself did not know how to calculate it accurately. I then went down to the nearest branch office instead, and their rep had to call in a manager to assist me as she herself as my enquiry was too â??complicatedâ?• for her to advise on as well. Even while speaking with her manager, they could not give me accurate figures or calculations, and kept emphasizing that it is a lot more complicated than what they could possibly share with me in a short consultation. The only things all of them could tell me for sure was 1) the current interest rate 2) the minimum repayment sum each month 3) the total repayment period (20 years).

What do all of that suggest? You decide.



Ah, happy faces at convocation, who have not realized that they

are now stuck with paying off the TFL

Solutions

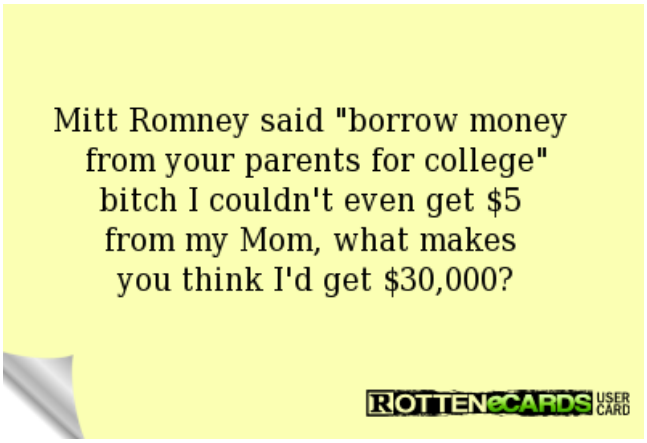
Iâ??m lucky to have won a scholarship for my university studies, but I know a lot of people out there are not as blessed (my sister included). While I didnâ??t have to deal with the pains of paying back the TFL, I know of many friends who have been stuck in this situation. Here are some solutions Iâ??ve personally recommended to them. Do exercise your own wisdom in choosing what works best for you.



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1. Borrow from your parents / relatives to pay back the loan

If youâ??re lucky enough to have parents who have a decent amount of savings, I recommend borrowing from them first and paying them either a slight interest rate, or none at all. Even if you pay them some interest, the money goes back to your own family, not to outsiders (in this case, the bank). Of course, if you choose this, please be filial and diligently pay back your parents for the sum borrowed afterwards.



2. Take another loan (at a lower interest rate) to pay back the TFL

Tread carefully here if you were to go with this option. Sometimes banks can have promotions on credit loans, and the rates can be much lower than the TFL rate of 4.75%. If you can find another legit and legalized source of loan which charges a lower interest rate, it might be wiser to borrow to pay back first.

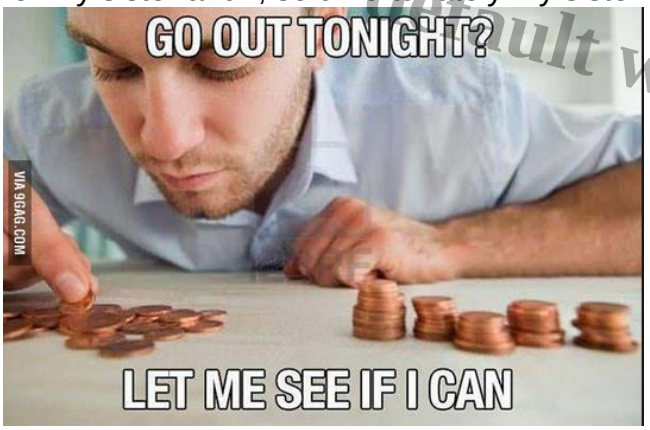
Iâ??ve noted that there are many loan companies claiming to be â??God-fearing menâ?• and legitimate sources of lending who have posted in the comments section of my blog. I personally would NOT borrow from any of them, as any smart-thinking person can tell that the so-called testimonials are fake and posted by the company/person themselves. This solution is only targeted at other banks eg.

borrowing from Citibank to pay back OCBC. Please keep track of the interest rates though!



3. Check if your parents have bought you an education / savings plan which is due soon

My aunt was extremely smart to have bought for her kids an education savings plan when they were young. The plan recently matured, so my cousin paid off her entire TFL with the lump sum payment that was paid out to her, together with a few months of her salary. My parents didnâ??t buy any such plan for my sister and I, so unfortunately my sister is stuck with having to find her own money to pay it offâ?¦



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4. Pay back as much as you possibly can in the next few years

If thereâ??s no way for you to borrow, or if you simply do not want to do so, then the only solution left is to be as frugal as you possibly can in the first few years of your working life and save as much as possible to pay off your TFL quickly. Paying back $500 a month can reduce your loan by 1/3 within 3 years, so imagine if you increased those monthly payments.



Hey fresh graduate, welcome to the real world!

Disclaimer: The above tables are not meant to demonstrate the actual payment terms of the TFL administered by DBS and OCBC. They are meant to merely serve as an illustrative guide and should in no way be taken as fact. For accurate calculations, please consult your bank directly instead.

Category

1. Savings

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