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Coping with College Loans

Paying them down and managing their financial impact.

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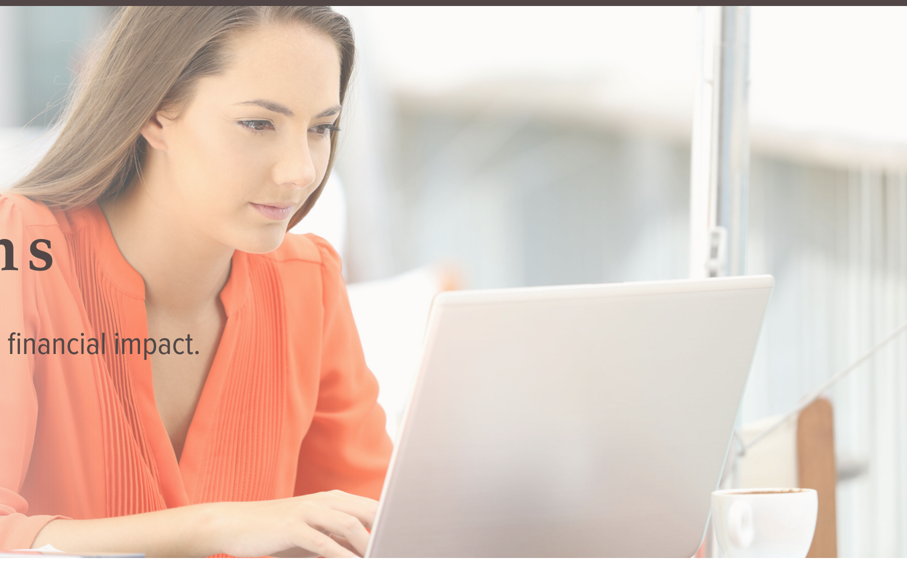

Is student loan debt weighing on the economy?

Probably. Total student loan debt in America is now around $1.5 trillion, having tripled since 2008. The average indebted college graduate leaves campus owing nearly $40,000, and the mean monthly student loan payment for borrowers aged 30 and younger is about $350.[1,2]

The latest Federal Reserve snapshot shows 44.2 million Americans dealing with lingering education loans. The housing sector feels the strain: in a recent National Association of Realtors survey, 85% of non-homeowners aged 22-35 cited education loans as their main obstacle to buying a house. Eight percent of student loan holders fail to get home loans because of their credit scores, the NAR notes; that percentage could rise because the Brookings Institution forecasts that 40% of student loan borrowers will default on their education debts by 2023.[1,3]

If you carry sizable education debt, how can you plan to pay it off?

If you are young (or not so young), budgeting is key. Even if you get a second job, a promotion, or an inheritance, you won't be able to erase any debt if your expenses consistently exceed your income. Smartphone apps and other online budget tools can help you live within your budget day to day or even at the point of purchase for goods and services.

After that first step, you can use a few different strategies to whittle away at college loans.

*The local economy permitting, a couple can live on one salary and use the wages of the other earner to pay off the loan balance(s).
*You could use your tax refund to attack the debt.
*You can hold off on a major purchase or two. (Yes, this is a sad effect of college debt, but it could also help you reduce it by freeing up more cash to apply to the loan.)
*You can sell something of significant value – a car or truck, a motorbike, jewelry, collectibles – and turn the cash on the debt.

Now in the big picture of your budget, you could try the "snowball method" where you focus on paying off your smallest debt first, then the next smallest, etc., on to the largest. Or, you could try the "debt ladder" tactic, where you attack the debt(s) with the highest interest rate(s) to start. That will permit you to gradually devote more and more money toward the goal of wiping out that existing student loan balance.

Even just paying more than the minimum each month on your loan will help. Making payments every two weeks rather than every month can also have a big impact.

If a lender presents you with a choice of repayment plans, weigh the one you currently use against the others; the others might be better. Signing up for automatic payments can help, too. You avoid the risk of penalty for late payment, and student loan issuers commonly reward the move by lowering the interest rate on a loan by a quarter-point.[4]

What if you have multiple outstanding college loans?

If one of them has a variable interest rate, try addressing that one first. Why? The interest rate on it may rise with time.

Also, how about combining multiple federal student loan balances into one? That is another option. While this requires a consolidation fee, it also leaves you with one payment, perhaps at a lower interest rate than some of the old loans had. If you have multiple private-sector loans, refinancing is an option. Refinancing could lower the interest rate and trim the monthly payment. The downside is that you may end up with variable interest rates.[5]

Maybe your boss could help you pay down the loan.

Some companies are doing just that for their workers, simply to be competitive today. According to the Society for Human Resource Management, 4% of employers offer this perk. Six percent of firms with 500-10,000 workers now provide some form of student loan repayment assistance.[6]

To reduce your student debt, live within your means and use your financial creativity. It may disappear faster than you think.

CITATIONS

Citations.
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