

## PECK FINANCIAL ADVISORS

*Valerie L. Peck, MBA, CFP®, Presents:*

### Coping with College Loans

*Paying them down, managing their financial impact.*

**Are student loans holding our economy back?** Certainly America has recovered from the last recession, but this is an interesting question nonetheless.

In a November 2013 address before the Federal Reserve Bank of St. Louis, Consumer Financial Protection Bureau Assistant Director Rohit Chopra expressed that college loan debt “may prove to be one of the more painful aftershocks of the Great Recession.” In fact, outstanding education debt in America doubled from 2007 to 2013, topping \$1 trillion.<sup>1</sup>

More than 60% of this debt is held by people over the age of 30 and about 15% is carried by people older than 50. The housing sector feels the strain: in a November National Association of Realtors survey, 54% of the first-time homebuyers who had difficulty saving up a down payment cited their college loan expenses as the main obstacle. The ProgressNow think tank believes that education debt siphons \$6 billion of new car purchasing power out of the economy per year.<sup>2,3</sup>

As the *Detroit Free Press* notes, the average 2012 college graduate is burdened with \$29,400 in education loans. If you carry five-figure (or greater) education debt, what do you do to pay it down faster?<sup>4</sup>

**How can you overcome student loans to move forward financially?** 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 backhandedly 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.

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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 the 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: many will lower the interest rate on a loan by a quarter-point or so in thanks.<sup>5</sup>

**What if you have multiple outstanding college loans?** Should one of those loans have a variable interest rate (about 15% of education loans do), try addressing that debt first. Why? Think about what could happen with interest rates as this decade progresses. They are already rising.<sup>5</sup>

Also, how about combining multiple federal student loan balances into one? If you graduated college before July 1, 2006, the interest rate you'll lock in on the single balance will be lower than that paid on each separate federal education loan.<sup>5</sup>

**Maybe your boss could pay down the loan.** Don't laugh: there are college grads who manage to negotiate just such agreements. In fact, there are small and mid-sized businesses that offer them simply to be competitive today. They can't offer a young hire what the Fortune 500 can when it comes to salary, so they pitch another perk: a lump sum that the new employee can use to reduce a college loan.<sup>5</sup>

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

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#### **Citations**

1 - [consumerfinance.gov/newsroom/student-loan-ombudsman-rohit-chopra-before-the-federal-reserve-bank-of-st-louis/](http://consumerfinance.gov/newsroom/student-loan-ombudsman-rohit-chopra-before-the-federal-reserve-bank-of-st-louis/) [11/18/13]

2 - [forbes.com/sites/halaltroyalai/2013/06/26/backlash-student-loans-keep-borrowers-from-buying-homes-cars/](http://forbes.com/sites/halaltroyalai/2013/06/26/backlash-student-loans-keep-borrowers-from-buying-homes-cars/) [6/26/13]

3 - [realtor.org/news-releases/2013/11/home-buyers-and-sellers-survey-shows-lingering-impact-of-tight-credit](http://realtor.org/news-releases/2013/11/home-buyers-and-sellers-survey-shows-lingering-impact-of-tight-credit) [11/13]

4 - [tinyurl.com/nouty3k](http://tinyurl.com/nouty3k) [4/19/14]

5 - [tinyurl.com/k29m48y](http://tinyurl.com/k29m48y) [5/1/14]

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