FEELING WEIGHED DOWN

Make payments on time and develop a strategy to avoid being overwhelmed

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The growing student loan problem has emerged as an issue for the 2020 presidential election. Democratic contenders Bernie Sanders, Elizabeth Warren, Joe Biden and others have proposals to cancel or forgive much of this debt.

Balances have mushroomed in recent years to $1.5 trillion, making student loans second only to mortgages among consumer lending categories.

The typical borrower pays about $179 a month, or 5% of his or her income to meet student-loan obligations, according to the J.P. Morgan Institute. Though that seems manageable, loan burdens are disproportionately carried by younger, less affluent individuals.

Unlike credit card borrowing and many other types of debt, student loans typically can’t be discharged in bankruptcy. About one in nine loans are 90 or more days delinquent, according to the Federal Reserve Bank of New York.

Student loans can be helpful. The nonprofit group Credit.org considers these loans to be “good debt” — a type of borrowing that, through increased education, adds value to your life in terms of boosting your net worth or income potential.

With a college degree, “you’re probably in a more employable situation with higher lifetime earning potential,” said Michael Rusnak, a certified financial planner and director of financial solutions at Fidelity Investments.

But plenty of borrowers face problems or don’t fully appreciate what they’re up against.

“This is often a person’s first experience with debt and having interest accrue (against them),”
Rusnak said.
Here are some tips to keep things from getting out of control:
Student loan debt repayment typically starts six months after a student graduates.
The payment clock can be delayed if a person remains in school, but otherwise borrowers need to
know that this grace period will end and that they
should take their repayment responsibility seriously.

Jessica Ferastoaru, a student loan counselor at Take Charge America, a
nonprofit debt counseling service in Phoenix, recommends borrowers use
the six months to understand what they’re dealing with. That can be a
daunting task, especially for people who might be starting new jobs, possibly moving homes or grappling with
other life changes.

“There’s a theme of incredible confusion around student loans,” she said.
Borrowers often don’t know how many loans they have, which payment-lowering options they might qualify for, who the servicing companies are or the consequences of falling behind on payments.

“We have seen people with 20 loans,” Ferastoaru said.
Each one could have its own features and wrinkles.
It’s important to make payments on time, yet some borrowers might not
fully realize the implications, especially young adults who haven’t dealt with
creditors.

Missing payments or going into default “is absolutely the worst possible thing you can do,” cautioned Kalman Chany, author of the 2020 edition of
“Paying for College.”
Falling behind on payments can damage your credit score — a measure
of your ability and willingness to make good on debts — and this can crimp
your ability to get credit cards, mortgages or other loans on good terms.

Defaulting on a loan can result in wage garnishment or having your income tax refunds or even Social Security payments reduced or withheld by
the government, Ferastoaru said.
Default can make it difficult to obtain
additional loans for graduate school, should that be a goal.

If in doubt about which federal loans you have and how much you owe, Ferastoaru suggested checking the National Student Loan Data System. Credit reports available through annualcreditreport.com should list private loan details.

If you can afford it, you might find it worthwhile to pay down your debts early. By adding, say, $100 a month to a fairly typical student loan of $29,000, you could get rid of the obligation three years early and save $3,000 in interest
over that time, according to Ronald Denk of Denk Strategic Wealth Partners in Phoenix.

If you decide to prepay some debt and if you have multiple loans, decide which ones to tackle first.

Denk suggested applying additional payments to get rid of loans with the
highest interest rates. Conversely, if you feel the need to see tangible progress sooner, consider paying off debts with smaller balances first to get them out of the way.

As attractive as paying down a student loan early might seem, it’s important to consider other, and possibly better, uses for extra cash. These include
building up an emergency fund, saving for a home or contributing money to an employer’s 401(k) plan.

“If your employer offers matching funds, that’s often the best investment return,” Rusnak, said, though the decision gets more complicated, and personal, after you contribute enough to max out on available employer matching funds.

As with mortgages and other debts, you might be able to obtain a new student loan featuring a lower interest rate. Just be aware that refinancing could
mean extending the length of your indebtedness, possibly piling up higher overall interest costs and delaying the date when you’ll be debt-free.

Consolidation, or combining multiple loans into one, is another possibility.
This can simplify your financial life and possibly lower your payments. In
particular, consolidating federal loans will give you a loan featuring one pay-
ment and a blending of the interest rates on your prior loans, Rusinak said.

Refinancing, by contrast, gives you "an entirely fresh loan," he said.

Be aware that consolidating or refinancing can affect, and possibly make you ineligible for, other benefits.

For example, some of your debt could be canceled if you become disabled or pursue various types of service careers. Chany cited teaching, law enforcement or nursing work in low-income areas as examples of jobs that might qualify for forgiveness. But tweaking your loans could invalidate that.

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