Deseret News

Experts offer advice about paying off those dreaded student loans

By Madeleine Brown , Deseret News
Published: Saturday, Nov. 9 2013 11:51 p.m. MST

After several months of enjoying post-college life, spring college graduates now need to start paying off those dreaded student loans. Most grace periods are only six months. (Shutterstock)

SALT LAKE CITY — After several months of enjoying post-college life, recent graduates need to start paying off those dreaded student loans.

Typical federal loans have a six-month grace period, so now it’s time for spring 2013 graduates to crunch some numbers, choose repayment plans and start pinching pennies to get out of debt.

“(Debt) limits your choices. ... Reducing your debt to the extent possible, opens the doors to opportunities that you may want to take down the road,” said Douglas Wells, a partner at Albion Financial Group.

Debt is also expensive, he said.

“Instead of having extra capital to save, now you’ve got to not only pay back the debt, but you’ve got interest on the debt,” Wells said. “Even though overall interest rates are low right now, the price that most consumers are paying on their debt is still quite high.”

As projected by the National Center for Education Statistics, about 1,791,000 students will graduate with bachelor’s degrees in 2013, and a good chunk of those grads are starting to feel the weight of student loans.

About 33 percent of University of Utah students received federal loans during 2012-13, according to the U.'s data. They borrowed an average of $13,244 — an amount most new grads needed to start paying back Nov. 2, since that is six months after commencement.

Graduates can postpone or reduce loan payments by qualifying for loan deferment or forbearance. In rarer cases, they can also qualify for forgiveness, cancellation and discharge.

The default rate averages to 14.7 percent nationally but is down to 6.9 percent for Utah State University graduates, according to director of USU financial services Patti Kohler.

She said 47 percent the university’s 2013 graduates left with an average student loan debt of $18,500.

About 20 percent of BYU undergraduate students received federal loans in 2012 at an average amount of $6,104, said BYU spokesman Todd Hollingshead.

According to U.S. News & World Report’s 2014 Best Colleges rankings, the university ranks fourth among schools for the lowest amount of student debt.

However, that debt is still hard to pay back, especially for graduates who are in low-paying jobs or internships. The debt quickly can become overwhelming.

“It’s just omnipresent. I don’t see any end,” said Laurie Banks, who graduated from BYU in June 2012. “I make minimum payments every month and just keep trudging along.”

Banks has a couple of state loans and some federal loans to pay off, too. She said it was worth it to get her education, which helped her get her job as a technical writer. But the debt constantly weighs on her.

“My tactic is to tread water,” Banks said. “Pay the minimum payment that I can. … I keep thinking I’ll just save money and have a big chunk and pay it all off, but something else always comes up.”

Prioritizing payments is key, said Jim Zeberlein, a certified financial planner in Salt Lake City.

“When I look at debt — whether it’s a student loan, car payment or house payment — it comes down to making sure you prioritize that and making sure it’s something you pay before anything else,” Zeberlein said.

The most appropriate thing to do in any situation, he said, is to pay loans off as soon as you can, most likely on a standard, level-payment plan.

“There’s no magic secret to paying off student loans,” Zeberlein said.

But he and some other financially savvy folks offered these strategies for paying off student loans and getting out of any type of debt:

1. Be on top of it. Get in touch with your loan servicer or lender (whether your loans are federal, state, institutional or private) and make a plan. Don’t know who to call? Check with the federal government or call 1-800-4-FED-AID.

“I think a plan is really important,” Wells said. “It doesn’t have to be complicated, but it does have to have an overview of how you’re going to get out of debt, how you’re going to save up the money that you need to pay off this debt and then also to save above and beyond that. ... A plan makes it much more likely that you’re going to succeed.”

2. Learn about your payment options, including graduated repayment and income-based repayment. Then make a schedule and a budget. Setting up automatic payments will help you avoid missed payments, which will hurt your credit score and let you develop poor financial behaviors.

“Helping someone pay off debt isn’t just about the mathematics. It’s about the behavior control mechanisms they have. ... You just have to be disciplined,” said Patrick Brady, a financial adviser who has counseled millions of dollars of student loan debt for the Utah Medical Association.

3. Try following the 10 percent rule: “The idea is really to pay yourself first and set apart 10 percent of your income and have it earmarked toward going toward your student loan,” Zeberlein said.

Then after your loan is paid, you’ll be used to living without that 10 percent and you can put that toward other goals and your inevitably increasing future expenses, he said.

4. Have a balanced diet. Brady recommends paying off the debt as soon as possible, but not using a “Atkins debt payoff” system.

“Have some carbs on your plate, which is like investing in your 401(k). Have some protein, which is paying off your debt. And then have some fat, which tastes really good, and have a little fun,” Brady said.

5. Spend smartly and avoid incurring more debt. Interest accumulates quickly, so try to pay more than the required monthly payment. Increasing your income certainly won’t hurt either.

“Separate out wants from needs,” Wells said. “If you’ve graduated from college and have a fair amount of debt, really be careful before you add additional debt. There may be things you can’t avoid, like a car ... but make choices that make it easier to get to where you want to be in a few years.”

Email: madbrown@deseretnews.com