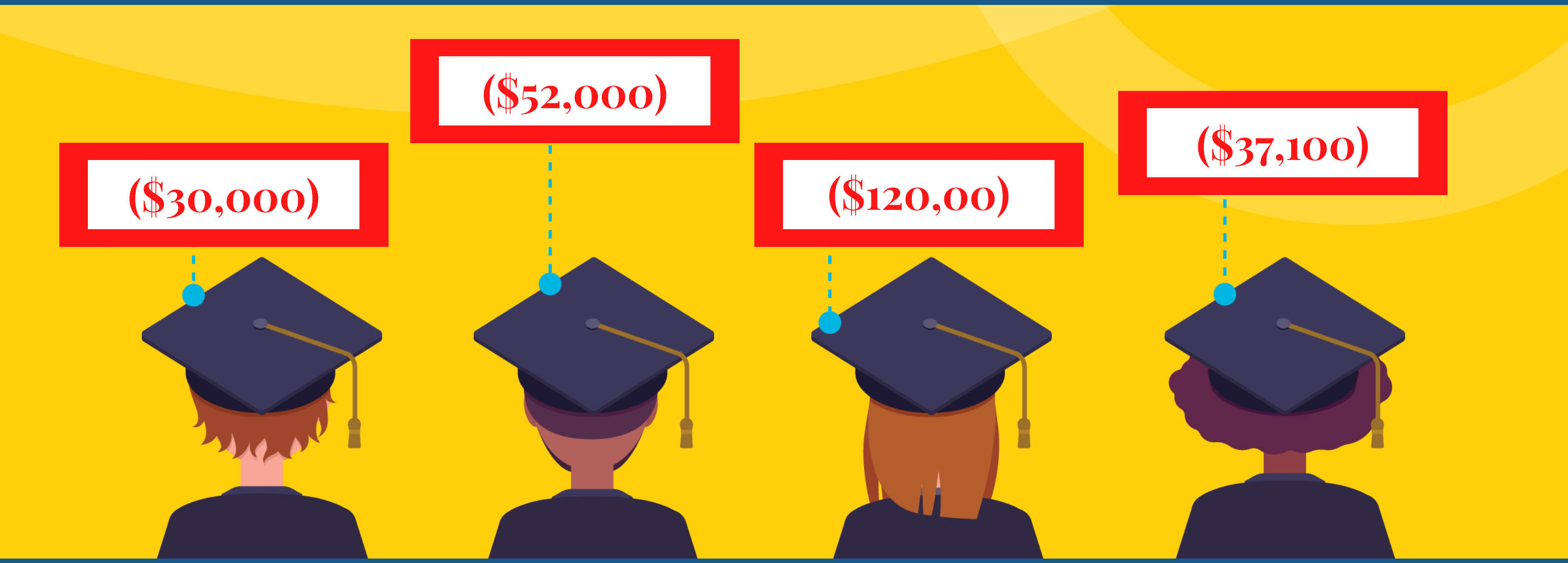

Loan Tips for Incoming College Students

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College decision day is here! Over the last week graduating seniors had to weigh in on their decisions to which college they would be attending in the fall and provide that school with their intent to enroll (on May 1st). What an exciting moment for students, especially with the roller coaster of learning/social challenges most have faced over their senior year, due to the pandemic. And while most families have probably sat down and reviewed the financial impact this new chapter will bring, parents and students can now begin to lay out their funding game plan as the cost to attend college are becoming more clear.

For many students, making ends meet to obtain a college degree require them to go into debt. While this may seem to be the new norm, it's important that students understand how these loans will impact the financial goals that they have post college. I can attest to this firsthand after graduating 5 years ago with over $30k of debt. If you plan on taking student loans to pay for college, consider these tips and strategies to reduce the burden post-graduation.

1 If you are going to live in an expensive state after college, limit your student loans as much as possible.

It's true that salaries are higher in states where the cost of living is higher, but having a large student loan payment on top of your living expenses will make it even more challenging to achieve financial goals, like buying a home. For those coming out of school with federal loans, you will automatically be enrolled in a 10-year repayment schedule starting 6 months from your graduation date. To put this in perspective, a student with $30k of student loan debt would have a monthly payment around $300/month for 10 years. That's equivalent to having a car payment that won't be paid off for 10 years... except it doesn't include a car!

The government does provide some flexibility in the amount you pay each month by letting you choose payment options based on income, but I would advise against these alternatives. These reduced payment options work by letting barrowers pay less at the beginning of their careers (when their income is lower) and escalate their payments as their income grows. One may benefit early on by saving money and paying less down on their student loans, but in the back half of your loan term you will most likely have much higher payment than you would have if you just kept the normal payment structure. This can throw a huge wrench in your debt-to-income ratio when qualifying for a home purchase or just your overall saving capabilities in your late 20s.

A good rule of thumb when it comes to financing school is to try and limit the total amount of loans you take to half of your 1st year's salary. This is even more crucial for students planning to work in expensive cities post college.

2 Take out Federal loans over Private loans and if you don't need more than $10k - $15k total, wait until your junior year to borrow the money.

I think it goes without saying that Federal loans provide far more benefits and flexibility than private loans do. Interest rates are typically lower, payments can be deferred until graduation, and for those who qualify - interest can be subsidized while you are in school (meaning your loans don't accrue interest until you graduate). In addition to some of these perks, if the government ever decides to forgive student loans, it's more likely they will forgive the federal loans as the legislative process to do so is much easier.

For students who only need $10k - $15k in student loans, try waiting until your last two years of college to take these out. This will allow less time for the loans to accrue interest and more time for you to save money. One of the biggest factors that increase student loans over time is the deferment of payments. Just like an investment account, the longer the balance has to grow and compound the higher your investment grows. This works the same for student loans (in a negative fashion). While a couple years might not seem like much time, you never know what may extend this period. You may find you want to go to grad school or that finding a job after college was harder than you thought. Whatever the reason for delaying your payment may be, you should do everything you can to start paying down the balance as soon as possible. Which leads me to my next tip.

3 Considering working part-time in school and full-time in summers to lower the total amount of loans you take.

Working while in school is another great option to supplement some of the costs of attending college. If doing so can help bridge your living expenses enough to take less loans or delay taking loans out until later years, then pick up on-campus job between classes. In addition to taking less loans out by working, another strategy you can take is making interest payments on your loans that you already took. Paying just $50 - $75/month can end up saving you thousands of dollars on your total loan balance after graduation. For student taking up to the maximum federal student loan limit, the difference in balance post-graduation can be up to $2k, effectively reducing your student loan payment by $20/month over the following 10 years! This assumes all your loans are priced at the record low 2.75% interest rate the federal government is currently charging, which we all know won't last forever.

In addition to saving you money over the life of your loan, interest payments are also tax deductible for those making less than $85,000/year! This can be a nice tool to use to offset the costs of paying interest while in school and making payments post-graduation.

In conclusion, the biggest take away one should have from this blog would be to stay disciplined and stay focused on the long-term goals you have. While these tips and strategies might not seem to move the needle further one way or another, your future self will be thankful for following through on them. Creating healthy financial habits and avoiding instant gratification while in school, will just make it that much easier for you after you land your first job out of school!

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