Regions Next Step Podcast

Insights for Students: Managing Student Loan Debt

In this podcast, you'll hear hints for managing student loan debt from Eric Smith, founder of The EKS Group, and creator of The Financial Literacy Coach and The Money Game Literacy Program.

Want to learn more about the following topics? Check out the link below to hear from Eric.

- How student loan debt can impact one's life and borrowing in the future
- Practical tips for paying off your student loans
- What it means to consolidate or refinance your student loans and whether these options are right for you

Episode Transcript

Narrator:

You're listening to the Next Step podcast, Managing Student Loan Debt, part of our Credit Basics Series presented by Regions Next Step. Advice, tools and resources to help you get closer to reaching your unique financial goals. Today, we will hear from Eric Smith, Founder of the EKS Group and creator of the Financial Literacy Coach and the Money Game Literacy Program. With over 28 years of success in the financial industry, Eric has the expertise needed to teach students how to succeed financially no matter which career they choose to enter after college. Now let's get into the discussion. Eric, to start off, how can student loan debt impact someone's life?

Eric Smith:

Oh, that is a great question and one that is so relevant in today's time. I saw a survey that suggested that over 70 percent of the graduating students across the country last semester were going to have around $40,000 or more in student loan debt. And oftentimes I meet students that are just really, they're at a loss on how they're going to make these payments on time and oftentimes I meet students that are unemployed or underemployed and it could be a quite a burdensome really obligation and just from a stress standpoint just being concerned and worried that you can't make the payment. I have met so many students along the way that are making job decisions not based on what their passion is or what they're really interested in, but simply is can I repay my student loan debt in time? There's something called loan forgiveness and I met a lady the other day that honestly, she was finishing her PhD and she had $186,000 in student loan debt. And she was taking a job in a small town not because she really wanted to take the job but because it offered and it qualified for student loan forgiveness after 10 years. And so, she was basically making a 10-year sacrifice just to repay student loan debt. And so, you know, it has a huge impact in the quality of life if you're always worried about whether you can make a payment. I saw another survey this past year that talked about the large percentage of first year employees that aren't participating in a 401(k) program because they feel like they can't afford to do that because they've got to deal with all the student loan debt. And so, it's impacting their future financial stability and so student loan debt is a -- you know honestly, I think it's a train wreck coming. I saw another survey that suggested that over 3,000 people a day default on student loan debt. And so, I think it's an issue, it's a national issue that's going to have to be dealt with and honestly, I don't know that I have a real suggestion for you know how to fix that. But when you meet people that have 85 and 100,000 dollars of student loan debt, and they really don't make enough money to repay that, then that's an issue. And it's something that we're going to have to deal with as a country.

Narrator:

Agreed. Thank you for that perspective. Now, how about other borrowing in the future? How does student loan debt affect this?

Eric:

Well, you know the reality is that if you have a big student loan payment and if you're going to come to my bank and apply for credit, part of my credit decision making is, hey, can that person afford to pay me back? And if the majority of your paycheck is going to a big old student loan payment, then maybe I'm not going to be so willing to extend that credit and give you that car loan or give you that mortgage. I saw another survey that suggested that the millennials having all the student loan debt they're postponing home buying decisions because they're just drowning in all the student loan debt. And so, it's somewhat of a unique struggle. There are certainly differences and unique qualities about student loan debt that you don't see elsewhere. And so, as a result of that it is a very unique type of debt and one that so many students in our country have unfortunately and they've got to deal with that.

Narrator:

Now, it sounds like students could really use some tips for managing this debt. What are some of your top tips for paying off student loan debt?

Eric:

That's a great question. I do have some tips. The first thing would be to before you leave the school actually complete the exit counseling session with a financial aid office. I meet so many students that basically leave campus without actually doing that exit counseling session and during that session your financial aid officer is going to review your borrowing. Sometimes the borrowing records are inaccurate. And so, one of the first things that they're going to ask you to do is decide on a repayment plan. And so, you need to educate yourself a little bit about that, understand the different repayment options and pick the plan that's best for you. This can be a confusing area. You got subsidized, unsubsidized. You've got Federal. You've got private. And what we're seeing now more and more is that more and more people are tending to have private student loans which don't have some of the benefit of the Federal as far as refinancing and readjusting and so, one, you've got to get the education. You've got to understand the differences and it actually starts before you go to college.

And the FAFSA, the financial aid application form that parents have to deal with, I've done it myself, it can be intimidating. And so, there are some resources, studentaid.gov is a good resource to go to learn more about the student loan repayment options. But after the credit counseling session one of the things they're going to ask you to do is to create a budget so that you can actually see based on what you think you're going to make what you can afford to pay. Typically, a forbearance period or a grace period where you don't have a payment is about six months. So, they typically will give you six months after you graduate to get a job before those monthly payments start. And, you know, oftentimes these student loans are on a 15-yearlong basis. But I met many people that have 25-year student loans and so they're dealing with this debt for most of their adult life. And so, it's really important that, one, you understand what type of debt are you applying for. If you were to apply for a subsidized loan and you get that, then that's a government -- basically the Federal Government is subsidizing the interest is not accruing while you're in school. An unsubsidized loan is one in which where the interest clock keeps ticking while you're in school. And that can be a much more expensive way to borrow money. And so, some of these things we have control over.
Sometimes because of your parent's financial standing or your own individual standing you will not qualify for a certain loan. And you need to understand the disadvantage of a private loan.

The underlying question is accountability, how do we enforce accountability. I think there's value and benefit of having someone in your life, whether it be your parent or someone that you trust, that will be real with you. Regions has, what, the Real Talk and that's what it is. It's Real Talk. I think there's value in that. You've got to be somewhat guarded about who you share that information with but you certainly your parents. I think that its' very -- could be very helpful to have the parents -- especially if the parents are cosigning or co-borrowing the debt then I think they have the right to know exactly how the payments are being made. I will tell you it reminds me of one scam that's been going around a lot recently that unfortunately preys on parents and students with a lot of student loan debt. And that is where people are actually calling and offering to lower refinance at a much lower rate, and its' a very popular scam going on right now and they actually give you a different address to make those payments to. They divert the payments to the actual person who's supposed to be receiving the payment. And that's a very current scam just so you know that's going on this past year. And so I would certainly caution people that student loan servicing companies generally never call anybody to encourage refinancing. I guess that could be good and bad. So, in one way it's bad in that you're going to have to be maybe a little bit more proactive in making certain that you've got the lowest rate possible. So, if you're having to take out private student loan debt and it's in excess of 10 percent then maybe we need to look at alternative ways of refinancing that debt. But as a parent, I think you -- depending on the dynamics of the relationship with the student, of course, I think it could be very helpful to have that accountability, that forced accountability and reportability to my parent or parents to let them know how I'm handling the debt. I've met students who actually really don't need the student loan and they really don't understand the impact -- if you don't need it, don't take the money. Don't borrow the money just because you can get it. Because nothing is free and the cost of that credit as you'll soon find out is very, very expensive.

Narrator:

That's a great point. Just because money is available to you, doesn't mean you should take it. Now, to get further down the road in the debt management process, what does it mean to consolidate or refinance your student loan debt? When should someone consider this and what should they be aware of?

Eric:

Well, there is a difference between the two but typically speaking you get these loans every year and sometimes when the interest rates are moving up, the rates will vary on these loans. And also, the rates vary on the sources. Meaning that if I get a subsidized Federal student loan, that rate might be substantially different than if I get it from a private lender. And so, oftentimes we'll have -- let's just say that I went to a four-year school and I got student loans four times and maybe the rates were anywhere from 7 percent to 11 percent.

And so, if they're Federal debt, you have the ability to consolidate that. Right? And to make that payment lower, put it all in one bunch. And oftentimes, if it's Federal debt, it qualifies for a lower refinance rate. Which in turn would make that payment more affordable. Refinancing is simply just refinancing, getting another loan to pay off that previous loan, hopefully at a lower rate, at a lower interest rate.

But in order to do that, you've got to have a good credit score. It goes back to the need why we need to have a good credit score. You've got to have a good credit score in order to refinance to get the best rate possible. Well, you need to certainly understand that there are some advantages to having Federal student loan debt. And some of that has to do with the consolidation. Some of the Federal student loan programs do allow for a loan forgiveness. Let's just say you were going into the medical field or police or fireman or social worker in an area that let's just say that's an underserved market. Let's just say I go to rural Mississippi and as a result of that that job qualifies for a loan forgiveness. So, in ten years if I make all my payments on time then I would be eligible for a loan forgiveness. Well, if I mistakenly refinance that loan to a private student loan, I forgo that loan forgiveness ability because that does not carry forward to a private loan. And a private loan is just when you go borrow money from a bank or a credit union or an institution that is not affiliated with the Federal Government. And unfortunately, what we're seeing more and more of is that the private loans are the ones that typically are being approved it's getting more and more difficult to get a subsidized Federal student loan.

Narrator:

Thank you for making those distinctions. That's very helpful. Now, what advice would you offer to recent graduates and their parents about managing their student debt?

Eric:

You know the first advice I would offer is always make those payments on time. Oftentimes people will encourage you, especially if you get a little bit behind on your payment to not make the payments. And that could be some for the worse advice. I will highly encourage you to always keep those payments current. The chances of a refinance or consolidation go up considerably if the current -- if the debt -- excuse me -- is current. So that would be my first advice. But also understanding that you have some repayment options. There's something called an income driven repayment plan that basically looks at how much money you have left over every month that you can actually afford to pay for that student loan. And so, the Federal student loans are eligible for the income driven repayment plans. Your private student loans are not eligible for that program. There's another program called Pay as You Earn and it's also somewhat similar to this but in essence what they do, again, they look at what -- they make you do a budget to begin with and they calculate what you have left over that you can responsibly and afford to pay towards the student loan debt and they fix that payment so that it's in line with that amount of money. And so, you have income driven Pay as You Earn options and those are things -- the disadvantage might be that I'm going from a 15-year loan to a 25 year loan. But right now, if I'm struggling just to keep my head above water, then maybe that's a good plan for me to get some payment relief and maybe I'm going to get some raises and when I'm starting out maybe my salary is not going to be close to what it will be five years from now. And so, if I had the ability to do an income driven repayment plan, maybe it allows me for a little bit lower more affordable payment for the time being but the good news is you can always prepay these loans generally speaking and as you make more money, you have the ability to go back to a standard fifteen year loan student loan repayment plan. The one thing I would point out about a student loan debt is that it's the only debt that is not allowed to be included into a bankruptcy.

And just so you know that. So, there's a different level of responsibility that goes along with repaying student loan debt. And unfortunately, what we're seeing now is that more and more parents are having to assume the student loan burden because their students aren't eligible for obtaining the student loans. And so, it's not just a student problem. It becomes a family issue in order to make certain those payments are paid on time. But again, my suggestion to the parents would be to sit down with the student, create a budget, make certain -- maybe do auto draft every single month so that you don't have to worry about being late but the first step again it always goes back it seems to go back to a budget. And create a budget with your student so that we make certain that those bills are paid on time and that has to be a priority. And maybe the auto draft is a good for many students and it certainly makes it -- so you don't have to worry about making a late payment.

Narrator:

So, if parents are co-borrowers on student loans, what advice would you give to them for staying on top of these finances?

Eric:

Well, they certainly need to understand the negative impact of not making those payments on time. If they are in fact a co-borrower, that payment history is also being reflected on their credit report as well. And so, even if there's times where the student may not be able to support the full student loan repayment, the parents need to be certainly aware of the fact that any late payments are going to negatively impact their credit as well as the students' and so it may be a case where maybe they have to step in temporarily to assist financially to make certain those bills and payments are made in a timely basis.

Narrator:

Do you have any guidance for any skip a payment opportunities that come up down the line when making student loan payments?

Eric:

Yeah, and generally speaking the legitimate skip payments they're just adding that principle on the back end of the loan. But I'd be very careful with that. Again, it goes back to getting a plan. Now obviously if you don't have a job, it's a different situation. But if you're gainfully employed and you have income, then again it goes back to the need to create a budget every month and make certain that we're allocating money to pay that off. One thing that I would suggest is that if you're paying higher than a ten percent rate for a student loan then maybe we want to create a budget so that we get that debt paid off as quickly as possible. And I would certainly encourage the repayment to start with the highest interest rate and that's generally going to be your private student loans and your Federal debt is typically going to be the lower rates on that type of debt.

Narrator:

Thank you, Eric. Lastly, what are your top practical tips for directly paying off student loan debt?

Eric:

Absolutely. Here's a couple of them. First of all, consider paying off the higher interest rate loans first and check and see if your loans are variable or fixed. If you have a variable rate loan, what that generally means is as short term interest rates go up, your interest rates are going to go up on that loan and so if there's an opportunity to refinance that to a fixed rate, especially in our rate environment, I would certainly encourage that. To make certain that you establish a good payment record. I would suggest using automatic debit program to avoid those late payments. Also, it helps to establish good credit as a student starting out. Another suggestion would be to try to pay a little extra money every month. If we have a budget and maybe we can come up with another 50 or 100 dollars every month and allocate that toward paying that student loan debt off sooner. You'll be amazed at how quickly doing something as small as $50 a month how much of an impact that can do in reducing the length of time that you'll have to pay. And then, lastly, opt for a biweekly payment rather than a monthly schedule if you're given the option of doing that which means simply that you would have less interest accumulating. And one last tip that I have, if your loan is a non-subsidized loan and you're in school, do as much as you possibly can, pay that interest during the period that you're in school on the deferral. Which means that your interest clock is ticking while you're in school if it's a non-subsidized loan. And so, if you have any extra money in school, maybe from a summer job or part time job that you could throw toward that interest, it will certainly lower the amount of money you'll end up paying over the life of that loan.

Narrator:

Thank you again to Eric Smith for joining us to discuss managing student loan debt. And that concludes this insights for students podcast. You can find additional information about student finances and more online at www.regions.com/nextstep. No matter your goals, Regions will help you with each step you want to take. Thank you for listening. Copyright 2019 Regions Bank Member FDIC Equal Housing Lender. This information is general educational or marketing in nature and is not intended to be accounting, legal, tax, investment or financial advice. Statements of individuals are their own, not Regions. Consult an appropriate professional concerning your specific situation.