

A guide to graduating with less, or even no, debt

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Craig Pursley / KRT

200 dpi 84p x 50p Craig Pursley color illustration of graduate climbing out of a dollar sign maze. Orange County Register 1999 With STUDLOANS, Orange County Register by Diana McCabe With 970609 PAYING FOR COLLEGE, KRT Interactive Web package

More than two-thirds of college graduates today leave school in debt.

The average student loan debt is \$33,000 for a 2014 graduate, but there are some stories of students owing \$100,000 or more. The crisis is serious enough that President Barak Obama has directed the Department of Education to come up with ways to help young people manage their debt.

There is one sure way to avoid having debt dog your life after graduation: Don't borrow money or, if you must, borrow as little as possible.

"The time to reduce your debt is before you incur it," said Mark Kantrowitz, senior vice president

and publisher of the website Edvisors.com. He notes that graduating with \$33,000 in debt equals a monthly \$350 car payment for 10 years.

In some cases, students have no choice but to borrow money, especially for graduate school. But financial aid officers in South Florida say there are lots of sources for aid that don't have to be paid back, and more students need to exhaust those resources first.

LOOK FOR SCHOLARSHIPS, GRANTS

"There's so many scholarships out there, and they're not as restrictive as they think," said Mercedes Amaya, vice provost for student financial aid at Miami Dade College. "Students are not applying for scholarships ... Students think it has to be a Pell grant or a loan."

The federal government, the state, individual colleges and universities and thousands of private organizations offer grants and scholarships that don't need to be repaid, with some programs need-based, some merit-based and some a combination. ROTC and part-time jobs can also ease the need to borrow.

"I encourage them to do all of that before they rely on student loans," said Gabriela Mendez, student default coordinator at Florida International University.

BORROW AS LITTLE AS YOU CAN

The next big piece of advice is to borrow as little as possible. Just because your financial aid package says you can get a \$4,000 loan each semester doesn't mean you should, Mendez said.

"If we offer you \$4,000 and all you really need is \$2,000, don't look at that as free money," added Celia Melis, FIU's assistant director of financial aid.

FIU recommends students use loans only for tuition, not for living expenses. "We try to recommend as much as possible to stay away from the loans, especially if they are going into a graduate program," Mendez said. There are fewer grants and scholarships for graduate school, which makes it more likely students will need loans for those programs.

Experts also caution that the total amount borrowed — for graduate and undergraduate school — should not exceed the starting salary of a chosen career. That means if you expect to make \$50,000 a year in your first job, you should borrow no more than \$50,000 for all your education. That formula makes it likely that you can pay off all debt within 10 years.

"If you're going to pursue an occupation that doesn't pay very well, you should borrow less," Kantrowitz said.

CUT COLLEGE EXPENSES

Another key is to live frugally while in school, in addition to working summers and during the year if you can.

"Live like a student while you're in school so you don't have to live like a student when you graduate," Kantrowitz said.

He notes that a student who spends \$10 a week in borrowed money to buy a pizza will end up spending \$2,000 over four years — which means paying back about \$4,000.

Living with parents and going to a local college is one way to cut expenses, as is choosing a cheaper college or university or going to the school that offers the best aid package.

But even those students who go away to college and live in dorms or apartments can cut expenses — having roommates, cooking instead of eating out, buying fewer clothes, buying used textbooks, taking fewer trips home and generally living like a college student.

PICK THE RIGHT LOANS

All student loans are not equal. If you must borrow, start with subsidized federal loans — the Federal Perkins Loan and the Subsidized Federal Stafford Loan — which are available to those who meet certain income criteria, Kantrowitz advises. While the student is in school, the federal government subsidizes the interest rate.

Those who don't qualify may be eligible for an Unsubsidized Federal Stafford Loan, which is not based on income. With that loan, interest begins accruing when the student receives the money. All three loans come with fixed interest rates and are taken out by the student, not the parents.

All those loans have annual and cumulative limits, often not enough to cover expensive private schools.

The Federal Parent PLUS loan has a higher interest rate and higher fees but doesn't have a limit. It does, however, require the parent to have a good credit history.

Private student loans usually are more expensive, with higher fees and higher interest rates, which aren't fixed. They also require payment while the student is still in school, have less flexible repayment terms and require parents to co-sign.

READ BEFORE SIGNING

All the fine print about student loans is available on websites, in books and in university pamphlets. But, said Melis, a lot of students don't read what they're signing or do any investigating before they take out loans. For an 18-year-old who has never written a check, it's a particularly complex transaction.

"They don't see the end of the road and consequences of defaulting," she said.

Student loans can't be discharged in bankruptcy and unpaid debt rarely goes away. Wages can be garnished, and credit can be ruined for years. More than 100,000 retirees have unpaid student debt withheld from their Social Security payments, Kantrowitz noted.

In an effort to get more students to understand the consequences, colleges are offering more counseling up-front. At Miami-Dade, students are required to complete a counseling session before they take out loans, Amaya said.

WORST-CASE SCENARIO

One of the biggest mistakes students can make is borrowing for college and then not graduating. That leaves them with the debt but without the degree and the higher-paying job they expected.

This has been a particular problem with for-profit career colleges and certificate programs, where students often take out substantial private loans and then don't graduate. The problem is severe enough that the federal government and many states are investigating some operations. Corinthian Colleges is closing its 10 campuses in Florida and more than 100 nationwide after the federal Department of Education accused the company of misleading students and falsifying records.

Those who borrow to attend these kinds of institutions need to be sure about their career choices and ability to finish. They also need to make sure the school is accredited and really will help them get the desired job. Often, similar programs are offered for far less money at community colleges or public four-year schools.

"Make sure you understand what you want to be when you grow up," Kantrowitz said. "It can be very expensive trying to find yourself at a for-profit college."

More information

Nearly all colleges and universities have financial aid and student loan information on their

websites. Start there. It's smart to check Florida schools you don't plan to attend to see if they have information your school does not.

- <http://www.edvisors.com/>. Comprehensive information about financial aid, scholarships and loans, explained in simple terms.
- <http://finaid.org>. Articles and comprehensive information about loans, scholarships and other financial aid topics.
- <http://www.fastweb.com/>. Once you create a profile (free), the website sends you information about scholarships for which you may qualify.
- <http://www.floridastudentfinancialaid.org/SSFAD/home/uamain.htm>. Florida Department of Education links and information about Florida grants and scholarships.
- <https://studentloans.gov>. U.S. government website where you can keep track of and manage your federal student loans as well as get information about repayment plans and other loan topics.
- 'Debt Free U' by Zac Bissonnette, a book on how to get through college without incurring debt by a young man who did it.