Graduating to the Reality of Student Loan Debt

This year's crop of college graduates is greeted by a burgeoning economy rife with opportunity. But many also face the reality of re-paying student loans, which have grown to record levels in recent years.

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This month, millions of Americans will graduate college and celebrate their well-deserved achievement in graduation parties across the country. But for many, the celebration will be short-lived, as they face the looming burden of paying back student loans. According to a report by the Federal Reserve Bank of Atlanta, recent college graduates with student loans leave school with an average of $34,000 in debt, up from $20,000 just 10 years ago.[1] Nationally, student debt topped $1.5 trillion in the first quarter of 2018 -- more than doubling since the end of 2008.[2] Balances of student loans have eclipsed both auto loans and credit cards, making student loan debt the largest form of consumer debt outside of mortgages. For recent graduates, the burden can be particularly onerous. Some loans require borrowers to begin payments immediately after graduation. Others allow a six-month grace period before repayments must begin, but interest continues to accrue during that time. Meanwhile, these same graduates must find a job and often a place to live. With average salaries for recent graduates hovering around $50,000, many leave school with debt that exceeds their income. And, according to a recent Brookings study on student loan debt, nearly 40% of borrowers may default on their student loans by 2023.[3]

Fortunately, struggling graduates do have options, among them different payment plans for federal loans:

- The **Standard Repayment Plan** requires a fixed payment of at least $50 per month and is offered for terms up to 10 years (10 to 30 years for consolidation loans). Borrowers are likely to pay less interest over the life of the loan for this repayment plan than for other repayment options.

- The **Graduated Repayment Plan** starts with a reduced payment that is fixed for a set period and then is increased on a predetermined schedule, for an amount that will ensure your loans are paid off within 10 years (within 10 to 30 years for consolidation loans). Compared to the standard plan, a borrower is likely to end up paying more in interest over the life of the loan.

- The **Extended Repayment Plan** allows loans to be repaid over a period of up to 25 years. Payments may be fixed or graduated. In both cases, payments will be lower than the comparable 10-year programs, but total costs could be higher. This program is complex and has specific eligibility requirements.

- **Income-Based Repayment Plans**. There are several plans that base payments on your income. Each offers different combinations of payment deferral and debt forgiveness based on your income and other factors. You may be asked to document financial hardship and meet other eligibility requirements. See the U.S. Department of Education's pages on income-driven repayment plans and income-sensitive repayment plans for more information.

In addition to payment plan options, recent graduates with high student debt may want to consider pursuing jobs in institutions that offer opportunities for subsidies or debt forgiveness:

- Federal civil service employees may be eligible for up to $10,000 a year for paying back federal student loans. See the U.S. Office of Personnel Management's Student Loan Repayment Program for more information.
- Nurses working in underserved areas may be eligible for loan assistance through the U.S. Department of Health and Human Services' NURSE Corps Loan Repayment Program.
- Service members in the U.S. Armed Forces are eligible for support. Check out the service-specific programs offered by the Air Force, the Army, the National Guard, and the Navy.
- Teachers can consider programs such as Teach for America and the Teacher Loan Forgiveness Program.

Several other steps may also help pay down student and other debt:

- **Sign up for automatic loan payments**. Many loans offer discounted interest rates for setting up automatic electronic payments on a predetermined schedule. A reduction of 0.25% per year may look small, but over the life of a 20-year loan, it can reduce your total interest cost by hundreds or even thousands of dollars.
- **Pay off high-rate debt** such as credit cards first.
- **Cut costs** to free up funds.

As a last resort, those facing significant financial hardship may be able to put off loan interest or principal payments by seeking a loan deferment or forbearance. To see whether you might qualify, look to the U.S. Department of Education's information on Deferment or Forbearance.

[1]Federal Reserve Bank of Atlanta, *Student Loan Borrowers Face Tough Choices*, January 26, 2018, based on a 2017 study by The Federal Reserve Bank of New York.

[2]Board of Governors of the Federal Reserve System, Consumer Credit Outstanding (Levels).

[3]Brookings, *The looming student loan default crisis is worse than we thought*, January 2018.