The debt debacle

How recent grads are dealing with skyrocketing student loan debt

2012 graduate Megan Dennis (center) has a master's degree, $40,000 in student loan debt, and no full time job. The immediate solution is to live with her parents, Kim and Nancy Dennis, to make ends meet. Her boyfriend, Kyle Gauser, (left) also lives with the family.

"You're starting life out with a mortgage, without even having a home. You're always chasing your tail."

—Andy Leardini, co-founder of the College Financing Group

By Matthew Biddle

Megan Dennis exudes passion when she talks about teaching. In May 2012, the Angola native graduated from the Master's program at SUNY Fredonia, having earned dual certifications in childhood education and English 7-12.

She also came away with $40,000 in federal student loans — and no full-time job to pay it off.

"I love what I do, but at the moment I'm frustrated because there aren't any jobs out there," says Dennis, who's subbing part-time while she searches for a permanent position.

Dennis and her boyfriend, Kyle, live with her parents, as they save for an apartment and begin paying down their debt. Right now, Dennis's loans are on an income-based repayment schedule, meaning she only dishes out about $50 a month, or roughly 15 percent of her discretionary income.

"That's about what I can afford because I'm struggling with health insurance and all of that, too," said Dennis, who worries about the interest that continues to pile up. "I'm too old to be on my parents' [insurance], and I'm trying to find a job, so right now I'm doing what I can."

Dennis' situation is not unusual. As of 2011, student debt in the United States exceeds $1 trillion and shows no signs of decreasing. This year, according to Forbes, the average college student will graduate owing $27,000 in loans, an increase of $10,000 from 2005. And many students — even those fortunate to find jobs in their field — will have trouble making those payments. FICO released a study in January that showed student loans taken out after October 2010 had a delinquency rate of 15.1 percent.

"If students come out with loans they cannot afford and start out their life with too much debt, it affects their financial future for decades," says Jennifer Jurek, a certified financial planner at Sgroi Financial.

All of this has created a generation that is, on average, poorer than the one that came before it. According to a new study by the Urban Institute, those in their 20s and 30s in 2010 had 7 percent less wealth than 20- and 30-year-olds did in 1983. Thus, for many young people, these high loan payments have made it unaffordable to buy a home or even rent an apartment, get married, start a family or save for retirement.

"A lot of students might meet the person of their dreams in college, and guess what —they probably have $30,000, $50,000 or $100,000 in student loans," said Andy Leardini, co-founder of the College Financing Group, which offers student loan repayment counseling. "Now you're starting life out with a mortgage, without even having a home. You're always chasing your tail."

Careful debt management can help

Thankfully, some careful budgeting can go a long way. In her loan counseling sessions, Noelle Carter, a certified financial counselor with Consumer Credit Counseling Service of Buffalo, advises new grads to compare their expected income against their monthly bills —including other forms of debt, like car payments or insurance — and their living expenses, and then adjust their lifestyle accordingly.

"The biggest thing I stress in my sessions is that, if you're having trouble, you need to reach out for help," Carter says. "A lot of times people receive letters from their servicer, see that $400 or $600 payment and decide, 'Well, there's no way I can afford that, so I'm just going to ignore it and hope it goes away,' and that's the worst thing you can do," she said, recommending that people call their lender to talk about other options like income-based repayments or deferment, which can give someone time to get on his or her feet.

For convenience, also consider switching to an auto-pay option; it will automatically deduct your payment from your bank account and often comes with a small interest rate reduction. Those with multiple monthly payments might also look into consolidating their debt into a single loan for convenience. But, be careful.

"[Consolidation] would take your five student loans and combine them all into one, but where people get misinformed is that it uses an average weighting of your interest rates. It simplifies things, but there's not really a savings," Jurek said.

For those who can afford it, Jurek also advises her clients put down more than the minimum monthly payment on the loan with the highest interest rate in order to reduce the principal and save money in the long run.

Of course, the best time to budget for student loans would be in high school, before you ever take them at all. Leardini stresses that students should find the best school and the best fit for the least cost, especially nowadays when many must go on to grad, law or medical schools. Parents and their children should have a frank discussion of what they can afford and how much debt they can incur — before the student gets his/her heart set on a school that's too expensive.

"When you get out of school — you've gone through it, I've gone through it — there's the struggle of working through corporate America or starting a business; you're not making a lot of money," Leardini says. "I always say to the student, 'Don't panic.' ... I look at it as an investment in their future."

Now we just have to pay that off.

Matthew Biddle graduated from Ithaca College in 2011 and is working to pay off his debt. He is now assistant editor of Western New York Heritage and a freelance writer based in West Seneca.