

# Big Investment: The Financial Impact of Student Loans

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As a freshman engineering major at Drexel University in Philadelphia, Pa., 18-year-old Declan Crouse already has his eye on the prize: a high paying job after graduation. With college costs totaling more than \$46,000 per year, he anticipates racking up some serious student loans, which are loans to help pay for his education that often must be repaid with interest. Crouse is optimistic: “As long as I study hard, I am confident that I will get a good job and be able to pay off my loans right away.”

Patricia Nash Christel, a spokesperson for Sallie Mae, a Delaware-based provider of private loans, says that people increasingly see student loans as an investment in their future. Sallie Mae’s “How America Pays for College,” a national study of 1,600 college students and parents, recently reported that 80% of families filed the Free Application for Federal Student Aid (FAFSA) in 2011, up from 72% in 2010. FAFSA determines eligibility for student financial aid. “With this increase, it’s more important than ever for people to be aware of the financial impact of student loans and to learn how to borrow responsibly,” says Christel.

While it sometimes feels like the world is saying, “Go to college, whatever the cost,” many students wished they were better informed about the consequences of debt once they graduate and must repay thousands of dollars in student loans. It can be a lifetime commitment. Financial experts are advising student borrowers to be especially conservative these days. In a recent report, Moody’s Analytics, which researches global financial markets, warned: “Unless students limit their debt burdens, choose fields of study that are in demand and successfully complete their degrees on time, they will find themselves in worse financial positions and unable to earn the projected income that justified taking out their loans in the first place.”

## Employability Pays Off

The key to being a responsible borrower begins at home, says Bonnie Lee Behm, director of financial assistance at Villanova University in Villanova, Pa. “Families need to sit down together early on in the college application process and have a serious discussion about their financial situation,” she says. “Communicating openly about things like savings, debts and unnecessary expenditures can help a student make more informed decisions [about their] student

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loans.”

It might also motivate them to improve their study habits. When 20-year-old Alex Patterson, a sophomore at Philadelphia’s Temple University, graduates in three years with a degree in accounting, he estimates he will have to pay off close to \$40,000 in student loans. “My priority is getting good grades and doing well in school,” he says. “When the time comes, I’ll be as prepared as I can to get a job in my field.”

Maria Fair, an Edward Jones financial advisor based in Winter Springs, Fla., wishes her own son, a senior at the University of Central Florida, had given his job prospects more thought. After spending four years majoring in political science, he realized his limited employment options and changed his major to computer programming. “This late decision not only extends his time in school, but it also extends his loan repayment,” says Fair.

When it comes to paying for college, families should first tap college savings and maximize scholarships and grants before exploring federal direct loan programs, says Christel.

Behm stresses the importance of weighing the financial aid options at several different institutions. Just because one might appear to be more expensive, it could have more grant and scholarship opportunities than a less expensive institution. “To ease your loan burden, consider attending a community college for a couple years and then transfer to the school of your dreams,” suggests Behm. “But first, be sure you’ve worked all the details out with the school you intend to transfer to.”

Sallie Mae’s website also features “The Education Investment Planner,” a free online tool that allows people to estimate the full cost of a college degree, compare schools, determine if student loans are needed, and project monthly payments. “This way, students have a pretty clear idea of what they’re committing to,” says Christel.

### **Get a Loan Option Education**

Once you have taken advantage of all the other available forms of financial aid, like grants and scholarships, you may need to consider borrowing to cover remaining college costs. Be sure to research the various loan programs.

For example, federal direct loan programs, which families apply for through FAFSA, are either subsidized — (for students with demonstrated financial need), in which no interest is charged while a student is in school — or unsubsidized (not based on financial need), in which interest begins to accrue from the date the loan is disbursed. If you don’t pay the accruing interest, it will be added to the principal amount of your loan and increase the amount you have to repay.

While all student loans must be repaid, each type has its own unique repayment term, notes Christel. Typically, students have a six-month grace period after finishing school before payments begin. “The last thing students want to do is miss payments or stop making payments all together,” says Fair. “Borrowers with loans in default could be denied home loans, car loans, insurance and even jobs.” If you have trouble making your education loan payments, contact the organization that services your loan. You might qualify for a deferment, forbearance or other form of payment relief, adds Fair.

“As you go through the process of paying for college, remember that you can always borrow for academics, but not for retirement,” says Patterson. “If done the right way, an investment in your education will pay off in the long run.”

### **Related Links**

- [U.S. Department of Education Federal Student Aid Resource](#)
- [Free Application for Federal Student Aid \(FAFSA\)](#)
- [The SmartStudent Guide to Financial Aid](#)

- Sallie Mae's [Education Investment Planner](#)
- [Kiplinger: How to Limit Student-Loan Debt](#)
- [Kiplinger: 7 Strategies to Avoid the Student-Debt Trap](#)
- [FastWeb Scholarship Search](#)
- [NYT: College Doesn't Create Success: Room for Debate](#)
- [Moneycrashers.com: How to Reduce and Avoid Student Loan Debt](#)
- [Ways to Pay for and Afford College without Student Loan Debt](#)