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CAPITAL MANAGEMENT



Greetings!

Our newsletter this month is titled "Bearing the Burden of Student Loan Debt."

Thank you for your thoughts and feedback on our newsletters. If you know someone who may benefit from this information, please pass it on. If you have any questions or comments, please contact us.

Regards,

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→ Bearing the Burden of Student Loan Debt

If you are weighed down by student loan debt, you are not alone. Recent data shows that there are 44.5 million student loan borrowers in the U.S., and they owe a collective \$1.5 trillion. What's more, 45% of recent graduates have student loan debt and a whopping 62.5% of Americans with some form of student loans outstanding are age 30 or older. The average college graduate with a bachelor's degree left school with \$28,446 in student debt in 2016.¹ To put this in perspective, the average starting annual salary for new graduates in 2018 was \$50,390.²

Paying off these loans is often a challenge. Beyond the burden of monthly payments, the high level of debt can derail long- and short-term financial goals. One study showed that only 39% of recent graduates with student debt believe they'll be able to pay it off in 10 years. The researchers also estimated that a graduate of the class of 2018 will have to wait until age 36 before being able to purchase a first home with a 20% down payment and won't be able to retire until age 72.¹

→ Strategies to Start the Repayment Process

Although the amount of your student debt may seem overwhelming, repayments don't have to be. Long-held budgeting strategies such as managing everyday expenses and limiting purchases by credit card can be effective ways of finding the cash to put toward student loan payments. Additionally, borrowers have other options depending upon the type of loan they hold.

Graduates who took out federal loans -- which represent the bulk of total student debt -- have different options and protections at their disposal. Among these are the following:

- Standard repayment. Loans are repaid in equal amounts over a stated period, generally 10 years. This is typically the default plan if another option is not selected.
- Extended repayment. Under this plan, repayments can be extended up to 25 years. Monthly payments are generally lower than with the standard plan, but total payments are significantly higher due to the extended time period.
- Graduated repayments start out lower than under the standard option and increase gradually so that the loan can be paid off in 10 years.
- Income-driven repayment is available to borrowers who can demonstrate a partial financial hardship. Typically, repayments are capped at 10-20% of income and repayments can extend up to 25 years.
- Income-sensitive repayment also requires a partial financial hardship, and

repayment amounts are a function of your annual income and other factors

What if You Default?

There can be serious consequences should a borrower decide to not repay, or to stop repaying, a student loan. Defaulting on a student loan can result in low credit scores that can affect the ability to obtain a future loan or employment. Moreover, student loan debt might not be forgiven in bankruptcy proceedings under current bankruptcy law.

Borrowers who have difficulty repaying a loan may look into some of the hardship-based repayment programs described above. Additionally, the Public Service Loan Forgiveness Program might apply to individuals who work in nonprofit organizations or certain fields, including public education and law enforcement.

Considerations

If you are facing a mountain of student debt, consider your options and contact your lender, who may be willing to renegotiate the terms.

Footnotes/Disclaimers

¹Source: Nerdwallet, 2018 Student Loan Debt Statistics, December 4, 2018.

²Source: Korn Ferry, High Demand, Low Reward: Salaries for 2018 College Graduates Flat, Korn Ferry Analysis Shows, May 14, 2018.

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