<u>Congratulations, Graduate! Your Student Debt is About to Come Due.</u>

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There is a lot of attention being paid to student loans in the news today. It is estimated that the typical student will graduate with college loans amounting to $35,000; and many with advanced degrees will total quite a bit higher.

You may be leaving college without thinking too much about the long road ahead. Your focus may be on landing that first job and getting on a payroll. But, you may also need a little help in the basic knowledge about budgeting and handling money.

Don't let the total of your college loans overwhelm you. Your loan payments are set to start six months after you graduate. Take a deep breath and avoid digging yourself into a hole with a panicked response. There is help out there. Tap into it!

There is an income-based repayment plan available if your first job pays too little to cover loan payment. If you still don't have a job when your loan payments start, you may qualify for a deferment allowing you to delay your loan payments for a bit. But, deferring your loan payments or reducing your monthly payments does not absolve you from paying the principal and interest on your loans. Remember that extra years in making payments add a lot more interest to making that final payoff.

Let's say you have federal student loans, typically, you have ten years to pay them off. At an estimated interest rate of 4.05 percent, you'll be making a $355 monthly student loan payment from your budget. (You'll be paying $35,000 in principal and $7,622 in interest – a total of $42,622 – over the ten year payoff at that average interest rate. If you were to extend payment out over a twenty year period, your total interest spending would amount to $16,123.)

Most people should be okay if you simply make sure your total loan payments do not exceed your annual pay and the advice that any advisor will provide is to always pay as much as you can each month. To make sure you know how much you can afford to pay, you'll have to budget and have the discipline to keep to that budget.

How do you construct that budget? You might consider a budget based upon:

- Devoting fifty (50%) percent of your income to the necessities of housing (including rent and utilities), food, transportation, those required payments on student loans, credit cards, insurance and other expenses like phone and internet.
- Thirty (30%) percent should be factored in for entertainment and other nice-to-have items like new clothing, restaurants, travel and gifts.
- The remaining twenty (20%) percent should be allocated for saving. You'll be saving for emergencies (you lose your job, the car needs repair) and retirement.

Developing that savings habit is critical to your future financial well-being. It will provide you a huge head start on building a financial base for future planning. That discipline will pay dividends long after your student debts are paid.