

Avoiding traps before taking a student loan

YOUR FINANCE

NerdWallet

Students take on college debt with the best of intentions. They've been told that a college degree is a ticket to success.

But smart students still end up with debt they can't repay. Here are some reasons, plus ways to avoid these financial traps.

They're told it's 'good debt'

In high school, students hear that they should earn a college degree to get a good job.

Says Daniel T. Kirsch, author of "Sold My Soul for a Student Loan": "We're encouraging everyone to take out debt and calling it 'good debt.'"

But student debt isn't good when your degree doesn't lead to a job that earns enough to repay it.

Jennifer Atkins, 36, of Jacksonville, Florida, a first-generation college student, believed a university degree would help her get ahead. "I had the mentality back then that I was doing what I was supposed to do," says Atkins, who earned three degrees, including a master of nonprofit management in 2014.

Now, Atkins has two kids, more than \$100,000 in student loan debt and is unemployed. She quit her job in 2017 after an illness and hasn't found a job lucrative enough to justify paying for child care.

■ AVOID THIS TRAP: Limit borrowing so that future monthly payments don't consume more than 10 percent of take-home pay.

The loans don't feel real

Some students are willing to take on large amounts of college debt because they don't connect with the reality that they'll eventually have to repay it — with interest.

Atkins remembers accepting student loans in small increments throughout 10 years of higher education — \$3,000 here, \$5,000 there. She worked throughout school, but the loans were crucial to making ends meet.

In hindsight, Atkins says she wishes she had had a mandatory career counseling session to walk her through the numbers and understand her debt in the context of her future earnings and expenses.

Related links

- NerdWallet: Student Loan Affordability Calculator: bit.ly/nerdwallet-is-college-worth-it
- Bureau of Labor Statistics: Occupational Outlook Handbook: bls.gov/oooh/

■ AVOID THIS TRAP: Every dollar you borrow will have to be repaid with interest. You'll have a lower monthly payment in the future if you borrow only enough to cover tuition and basic living costs.

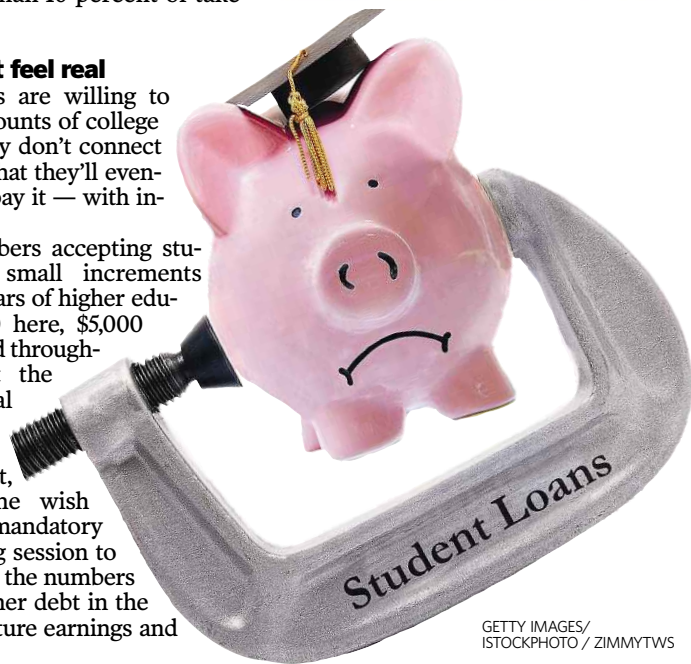
They lack information

In many cases, students lack the financial education needed to make borrowing decisions.

Susan Dawson, 47, who has a doctorate in history and works as a historian for a federal agency, can afford her student loan payments thanks to a second job teaching online classes and a federal repayment plan that caps her monthly payments at a percentage of her income. But she says if she had known the earning potential in her field, she would have chosen a different career.

"I feel stupid because I did not know what questions to ask," says Dawson, who has a six-figure student loan balance, and lives and works in Washington, D.C.

■ AVOID THIS TRAP: Check the Bureau of Labor Statistics' Occupational Outlook Handbook to research wages and education requirements for various fields. Use a student loan calculator to estimate future monthly payments.



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