The Colony Group
HER WEALTH

AUGUST 15, 2023

Tips for Students on Avoiding Student Loans and Credit Card Debt

Savvy strategies for high school and college students to avoid student and credit card debt and position yourself for financial independence post-graduation and beyond.

HER WEALTH

For students enjoying summer break, time may be spent lounging by the pool or hanging out with friends. But how much time do you spend planning for your financial future? With the Common Application and many other college admissions applications open as of August 1st, there is no better time to plan not just which schools you dream of attending, but how you can best position yourself to graduate debt-free.

According to a May 2022 NerdWallet analysis of National Center for Education Statistics data, a 2022 high school graduate could expect to borrow $39,500 for their bachelor's degree. While you may not want to think about post-graduation debt before even starting college, your future self will benefit from avoiding the long-term commitment of paying off your student loans and excess credit card spending from college. This may seem like a lofty goal, but there are several strategies you can utilize to reduce your debt burden and maximize your financial independence post-graduation.

Take advantage of multiple strategies to pay for college

There are many smart decisions you can make in advance to plan for minimizing or eliminating student loans. I encourage students to consider all options before taking on debt to pay for higher education, including these strategies:

• Fill out the Free Application for Federal Student Aid (FAFSA). There are no parental income limitations to fill out the FAFSA or qualify for federal student aid. In addition to federal funding, many states and colleges determine your eligibility for financial aid, including options that you do not have to pay back such as grants, scholarships, work-study, and need-based aid, dependent on the results of your FAFSA. The information you provide within the FAFSA will produce your Expected Family Contribution (EFC) that schools use to calculate the amount of federal student aid you are eligible to receive.

• Research colleges that meet 100% of demonstrated financial need. Acceptance into a school that meets a high percentage or 100% of demonstrated financial need is helpful in advancing the goal of graduating debt-free. The university will provide financial aid to cover the difference between the cost of attendance and your EFC.

• Explore colleges that offer significant tuition discounts or even full-tuition scholarships to attract top students. For example, a university in my home state offers 4 years of full-tuition scholarships to high school students who graduate as valedictorian or salutatorian of their class.

• Apply diligently to scholarships, including smaller check sizes which are often overlooked. For example, many firms and charities in your local community will offer scholarships for $1,000 and often receive fewer applicants compared to national, full-tuition scholarships. These smaller check sizes can add up!

Know that credit cards are not "free money"

Arriving on campus to a college you worked hard to attend is exciting. While your next stop may be furnishing your dorm and dinners out with new friends, you should do this with a budget in mind and be careful not to overspend via credit cards. Student loans are not the only debt you will have to work to avoid as a young adult. The average American credit card user between the ages of 18 and 29 has $2,900 of debt. Be aware of some of the dynamics around managing credit cards in college:

• Knowing they are more likely to earn higher interest charges and fees from your demographic, credit card companies use marketing tactics to intentionally lure in young adults. If you see a credit card company on campus with an enticing offer, do your research first to understand the credit card and credit limit that is most appropriate for you.

• If you take on credit card debt during college, you may risk lowering your credit score. This can have a wide range of consequences later in life including higher interest rates and fewer options on future credit cards, loans, and mortgages. You may also face higher premiums on auto and homeowners' insurance or have a hard time renting an apartment. Not to mention future employers may request access to your credit report, which is a detailed breakdown of your credit history prepared by the three major U.S. credit bureaus – Equifax, Experian, and TransUnion.

• To help increase your credit score, ensure you make all payments on time, keep credit card balances low, request credit limit increases on a regular basis, and avoid unnecessary credit inquiries by applying only to the credit cards you need. If you find yourself with credit card debt, proactively contact your credit card companies to request a decrease in your interest rate as it may increase over time. Even a small decrease can significantly shorten the amount of time it takes you to become debt-free, which will help boost your credit score.

The smart decisions you make in your young adulthood on where to attend school, how you pay for it, and managing your credit can set you on a positive path to lifelong financial independence and wellness.

CASSIDY ORR

Research Analyst

Cassidy is a Research Analyst on the Institutional Advisory Practice team in New York, serving non-profits and high-net-worth families. She conducts due diligence on prospective and existing external investment managers for clients' portfolios with a focus on diversifying strategies, real assets, and equity alternatives investments. Cassidy assists in sourcing and engagement with Diversity, Equity, and Inclusion (DEI) related managers and opportunities, and supports the firm's Environmental, Social, and Governance (ESG) investments. She is also a member of the Her Wealth Committee.