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**"I KIND OF
RUINED MY LIFE
BY GOING
TO COLLEGE."**

—JACKIE KROWEN, 32, PORTLAND, OREGON

\$152,000 IN STUDENT DEBT

42 million people owe \$1.3 trillion in student debt.
How we made this mess, who's to blame, and what you can do about it.

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Having the College Money Talk

10 Key Questions
Every Family
Should Discuss
by Donna Rosato

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With so many options, figuring out where to go to college can be overwhelming. Large research university or small liberal arts college? City school or rural school? Close to home or out of state? Guidance counselors talk of finding a school that's the right "fit" academically and that has an atmosphere that suits the student. But as students and parents get wrapped up in the emotional quest for a "dream school," they can lose sight of the financial consequences of the decisions they make. And when the acceptance letters finally (hopefully) roll in, families of college-bound students can find themselves scrambling to figure out exactly how they're going to pay for it all.

Today a four-year education at a state school—including tuition, fees, and room and board—costs an average of \$78,000; at a private university it's more than double that. More than 70 percent of graduates leave school with debt. Borrowers in the class of 2016 are finishing with record debt, averaging about \$37,000 per graduate, according to an analysis by Mark Kantrowitz, an industry expert, and publisher and vice president of strategy for Cappex.com, a website that helps students compare colleges and find scholarships.

Debt that size can cast a long shadow, according to a new Consumer Reports nationally representative survey of more than 1,500 student loan borrowers. Forty-four percent of those who have left college say they have had to cut back on daily living expenses, and 28 percent have had to delay major goals like buying a house and 37 percent put off saving for retirement. The financial impact is so

daunting that 45 percent of borrowers say knowing what they know now, their college experience wasn't worth the cost.

How do you avoid that kind of buyer's remorse?

Financial aid and college financing experts consulted by Consumer Reports say that families often don't pay enough attention to actual costs until they're deep in the college admissions process. "When you're looking for a school, it's not just about academics and the feel of the place," says Frank Palmasani, a college counselor at Providence Catholic High School in New Lenox, Ill., and author of "Right College, Right Price." "It should be a financial fit, too." Parents and children should have frank family talks early and often. Parents should be honest about how much they have saved and can afford. They should ask their college-bound son or daughter to think about his or her ambitions and expectations, and to be realistic about how much they are willing to shoulder when it comes to debt.

With an action plan in place early, families can weigh their options rationally at the moment when acceptance letters and student aid offers are on the kitchen table. Consumer Reports put together these questions and best practices to help you start the conversation and demystify the process. Going through them as a family may even reveal options you hadn't considered.

1 What does your student want to get out of college?

College can be an expensive place to figure out what you want to do in life. Yet many students, understandably, head off not knowing. They change majors, transfer schools, and often take and pay for too many classes that don't count toward the degree they eventually choose.

Those are among the reasons only 39 percent of college students graduate in four years, according to the National Center on Education Statistics. Extra time means extra debt. According to an analysis of students from the University of Texas at Austin who took out student loans, those who graduate on time will

What Makes Student Debt Different

HOW IS INTEREST SET?

MORTGAGES Private lenders continuously set and reset rates, based on movements in the secondary markets, where bundles of loans are bought and sold. Rates for a conventional 30-year fixed-rate mortgage fluctuate along with the 10-year Treasury yield.

STUDENT LOANS Congress sets federal loan rates each spring off the 10-year Treasury note. Private lenders have their own formulas. Student loan interest rates are typically higher than those of 30-year fixed-rate mortgages.

CAN YOU REFINANCE TO TAKE ADVANTAGE OF LOWER RATES?

MORTGAGES Yes, through many banks and credit unions.

STUDENT LOANS Yes, but be warned: Few private providers offer these services, and when you refinance federal loans, you forfeit key consumer protections.

CAN YOU DISCHARGE YOUR LOAN IN BANKRUPTCY?

MORTGAGES Yes.

STUDENT LOANS Not without proving "undue hardship" to a bankruptcy judge with challenges from the lender, a high bar.

IS THERE RECOURSE AGAINST BAD LOAN SERVICING?

MORTGAGES Yes. If the mortgage servicer applies payment improperly—thus breaking the law—you can sue.

STUDENT LOANS Not much, because there are no consistent industry standards for student loan servicers.

CAN THE LOAN GROW BIGGER OVER TIME?

MORTGAGES Not really, due to rules forbidding servicers from setting too-low payments, causing interest to add up.

STUDENT LOANS Yes. That can happen, with income-based repayment plans and in other circumstances. When unpaid interest is added to principal, debtors pay interest on interest.

—Tobie Stanger

owe an average of 40 percent less than those who graduate in six years.

A student who has a few years till college can get a better sense of his options by exploring different kinds of careers, whether by working as a volunteer or part time, or by doing job "shadows" following a worker through a typical day, says Cyndy McDonald, president of GuidedPath in Boulder, Colo., which advises high school college advisers, students, and their families on college planning. Older students who are still uncertain might consider commuting to a less expensive public university until they have a firm idea about what they want to study, says McDonald.

Taking a "gap year" can also pay off. That's what Malia Obama, daughter of the president and first lady, who is heading to Harvard in 2017, plans to do. Research from Bob Clagett, a former dean of admissions at Middlebury College and a former senior admissions officer at Harvard College, found that gap-year students at Middlebury and UNC-Chapel Hill had, on average, higher overall GPAs than those who didn't take time off. Gap-year students also performed better in college than their high school academic record would have predicted.

2 How much will college cost, bottom line?

Figuring out the true cost of college isn't as simple as looking up the tuition and room and board charges and multiplying by four. Even at the most expensive colleges, few people pay the actual sticker price. How much you pay depends on your family's financial situation, the student's academic record, and other factors that influence how much a school offers in grants and scholarships, both types of free money that don't need to be paid back. To evaluate a school's true cost, you need to get down to the "net price."

The net price is how much a student pays after subtracting scholarships and grants. Since 2011, undergraduate colleges and universities that participate in the federal financial aid system are required to have a net price calculator on

their websites. Input information about your family's finances and the student's academic record, such as GPA and SAT scores, which can affect merit aid, and get an estimate of the net cost to you. Loans are not included in the calculation.

You won't know your exact cost until a school accepts you and gives you a formal financial aid offer. But using the calculators will give an idea of your eventual out-of-pocket costs and how much you might need to borrow to attend. It will help you target schools in your price range.

One mistake families often make is assuming that their state university will be the most affordable option, says Palmasani. Flagship state schools can be pricier than smaller private colleges. A public university in another state could be less expensive than going in-state where you live.

Some private colleges, even highly selective ones, can be cheaper than state schools, too. That's because public colleges generally award smaller and fewer scholarships than private colleges, which may have richer endowments, says Zee Santiago, director of college counseling at the Collegiate Institute for Math and Science high school in New York City. "With cutbacks to state funding, state schools don't have the money to give out that private schools do," says Santiago.

That was the case for Aissata Samake, a 17-year-old senior in New York City. She was accepted to three schools in the State University of New York system but will be studying biology at Gettysburg College, a private school in Pennsylvania. While the total cost is about \$63,000 per year, Samake will pay only \$3,000, thanks to the financial aid package she received. Typical costs at SUNY schools average \$20,000 per year, and Samake would have had to pay nearly the whole tab.

3 How much federal financial aid can our family really expect?

You can get an early read on eligibility for federal aid—grants, loans, and work-study programs—using the Department of Education's FAFSA4caster tool (studentaid.ed.gov/sa/fafsa/estimate). It



To make sure debt collectors got paid, “they said they would definitely take away [my father’s pension]. They said they have every right.”

—VANESSA MCCLURG, 29
SALT LAKE CITY
\$73,000, STUDENT DEBT

offers a federal aid picture, but using it with a specific school’s net price calculator can give you a more detailed view.

Then, at the start of senior year of high school, parents of a college-bound student need to fill out the Free Application for Federal Student Aid (FAFSA). In addition to federal aid, this is the form that states, colleges, and many scholarship programs use to determine eligibility for grants and loans. New this year: You can submit the FAFSA as early as October, using what is awkwardly called the “prior-prior” year’s tax return. That means students who want to attend college for the 2017-2018 academic year can file in October of 2016 using the family’s 2015 tax info. Don’t make the mistake of not filing a FAFSA because you don’t think you’ll qualify for aid. Everyone is eligible for certain types of federal loans. There is no explicit income cutoff for need-based aid, such as Pell Grants and subsidized student loans, says Kantrowitz of Cappex.com. Parent and student income and assets are the major factors that determine whether you qualify. But the size of your family, the number of children in college at the same time, and

the age of the student’s parents are also considered. The older the parent, the less their assets will be weighed in financial aid calculations because it’s understood that older parents need to be saving for retirement, too.

4 Are financial aid offers good for four years?

In what can seem like a bait and switch, some schools may offer more generous scholarships and grants to freshmen to entice them to enroll, but be aware that this money might not be fully renewable, says Kalman Chany, author of “Paying for College Without Going Broke.” “You need to know what strings are attached to get it every year,” says Chany. If you receive a merit-based scholarship, ask what the requirements are to qualify each year. You may need to maintain a certain GPA, for example. If you have a generous athletic scholarship, find out whether it continues if you sustain a career-ending injury, and have a contingency plan in case it doesn’t. Even if the amount of grants and scholarships stays the same for all four years, tuition is likely to rise,

▲ Vanessa McClurg

29, SALT LAKE CITY

UNIVERSITY OF NORTH TEXAS

\$67,000	\$73,000	\$522
STUDENT LOANS	REMAINING BALANCE	MONTHLY PAYMENT

OCCUPATION: AUTO SHOP SERVICE MANAGER;
SALARY: \$32,000 ANNUALLY

McClurg’s father, a retired U.S. Navy officer, co-signed her loans. Then illness disrupted her education. She was hospitalized with pneumonia as a sophomore and later contracted a staph infection: “Unbeknownst to me,” she says, “I didn’t have a good immune system.” After missing more than a year of classes, she dropped out in 2010.

McClurg moved to Utah and got a \$9-an-hour job in an auto repair shop, and says she couldn’t afford to pay her loans for a few years. Then debt collectors “really came after me,” she says, threatening to sue her. Then they said they would go after her father as well because he had co-signed her loans. “They would definitely take away his pension,” she says she was told. “They said they have every right.” Finally, she says, “my 84-year-old grandfather gave me every dime he had” so that she could get her loans current.

McClurg says she now earns \$32,000 per year, enough to pay \$522 each month for the education she never finished.

Degrees of Debt & Regret

The data is consistent and compelling: Because a college education translates into a better future, it's worth the money you spend on it. But try telling that to the 1,500 Americans with student debt who responded to a nationally representative March 2016 Consumer Reports National Research Center survey. The burden of paying off significant loans has left many questioning—after the fact—whether college was worth the cost.

45%

OF PEOPLE WITH STUDENT LOAN DEBT SAID THAT COLLEGE WAS NOT WORTH THE COST.

OF THOSE WHO SAID COLLEGE WASN'T WORTH THE MONEY

- 38% Didn't graduate.
- 69% Have had trouble making loan payments.
- 78% Earn less than \$50,000 per year.
- 43% Didn't get help from parents making financial aid decisions.

The Impact of Student Debt ...

44%

CUT BACK ON DAY-TO-DAY LIVING EXPENSES.

37%

DELAYED SAVING FOR RETIREMENT OR OTHER FINANCIAL GOALS.

28%

DELAYED BUYING A HOUSE.

12%

DELAYED MARRIAGE.

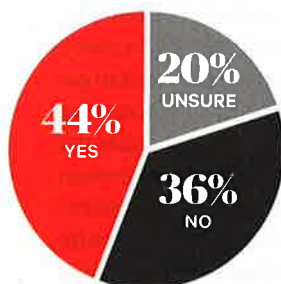
14%

CHANGED CAREERS AS A RESULT OF STUDENT DEBT.

47%

SAID THAT IF THEY HAD TO DO IT OVER AGAIN, THEY WOULD ACCEPT LESS FINANCIAL AID. THAT MEANS THEY'D HAVE TO GO TO A CHEAPER SCHOOL OR FIND ANOTHER WAY TO FINANCE IT.

Would you want to know how much student debt a person has before you begin a serious relationship?



More Than Half

reported having problems making payments on student loans at least once.

so the aid will cover less of the cost.

To maintain federal financial aid, you need to file the FAFSA each year. The amount of assistance you are eligible for can change if your financial circumstances change.

5 How much debt can one student manage?

There's a rule of thumb for that, too. The total amount of loans a student takes shouldn't exceed the salary he expects to earn annually in the early years of his career, advises Kantrowitz. According to the National Association of Colleges and Employers, the average starting salary for a person with a bachelor's degree is \$50,000. But if you don't know what you want to pursue as a career, be more conservative, he advises. If you earn \$50,000 after graduation and borrowed that much, expect to pay about \$555 per month under the standard 10-year repayment plan, assuming a 6 percent interest rate. Annually, that's about 13 percent of your salary toward your loans.

If possible, avoid private loans. Federal loans come with consumer protections like flexible repayment plans and deferment or loan-forgiveness options if you meet certain conditions. Private loans often hook borrowers with lower current interest rates, but they come with stricter terms and fewer, if any, debt relief options if you can't afford your payments, according to the experts we spoke with.

6 Should parents contribute, and if so, how much?

This is a tricky financial question, and the answer depends on willingness and circumstance. However, most financial advisers we spoke with tell parents to prioritize saving for retirement over paying for their kids' college, at least out of regular income. The thinking goes: You can borrow for college, but you can't get a loan for retirement. Parents should continue to save in their 401(k) at least up to the employer match. If you have no 401(k), put money in an appropriate IRA.

And if parents really want to contribute, even if they've saved money in a 529 college savings plan, they should think carefully about how much to borrow. Follow the same rule of thumb that Cappex.com's Kantrowitz suggests students follow. Favor federal Parent Plus loans over private loans, which have key advantages, such as flexible repayment options. Total debt assumed (for one or more child's education) shouldn't be more than your annual salary if you're 10 years or more from retirement, and even less the closer you are. If the costs are more than that, consider less expensive schools.

7 What about community college?

Starting off at a community college and then transferring to a four-year institution can be a good way to reduce costs. Tuition and fees at community college average just \$3,435 annually compared with \$9,410 at a public in-state school and \$32,405 for a private nonprofit college (not including room and board). In a growing number of states (Tennessee and Oregon) and cities (Salt Lake City, Los Angeles, Detroit, Boston, Chicago), there are grant and scholarship programs to make tuition more affordable or even free.

Some states, including Florida, California, Massachusetts, and Virginia, guarantee that anyone who earns an associate degree in-state can transfer to the state university. Wherever you go, make sure community college credits will transfer to the schools where you want to finish your degree. Most schools accept transfer credits from community colleges, but the classes might count as an elective and not toward the degree you want, says John Fink, a research associate at the Community College Research Center at Teachers College, Columbia University.

8 Any other ways to cut costs?

For those interested in a military career, the ROTC can pay a significant portion of college costs in exchange for some level of on-campus participation and three years

or more of active-duty service. The Army, Air Force, and Navy have ROTC programs with various levels of scholarship, up to full tuition with monthly stipends.

Or you can consider studying abroad, which can be significantly cheaper—and in some countries free (although you'll still need to pay for living expenses). After getting accepted to a half-dozen schools in the U.S. and the U.K., Ian McLellan, 22, chose the University of Glasgow in Scotland, where he earned a degree in history last spring. His total tuition tab: about \$60,000. More than half of the 43,600 American students who earn their diplomas abroad go to schools in the U.K. or Canada, where language isn't a barrier. The average tuition for international undergrads in Canada is about \$22,000, according to Statistics Canada. In the U.K., undergraduate programs are typically three years long, offering another opportunity to save. But even those that are four years can cost significantly less than many private schools in the U.S. A degree earned overseas can be attractive to domestic employers, says Peggy Blumenthal, a senior counselor to the president of the Institute of International Education in New York City. It might even be an advantage if a student wants to pursue international business.

9 How can we know if this expensive education will pay off?

The ultimate value of an education is, of course, hard to quantify. But a student isn't going to feel very good about all of the money she spent on college if afterward it's a struggle to find a job that barely covers the monthly debt payments. To get a sense for the quality of the education at a school and its student outcomes, look at measures like graduation rates and postgraduation earnings, says Rory O'Sullivan, deputy director of Young Invincibles, a millennial research and advocacy organization that focuses on financial issues for young adults.

Last fall the Department of Education made it easier to get that kind of outcome

data when it revamped its College Scorecard tool. You can use the Scorecard to filter schools by graduation rates and 10-year-out median salaries of graduates who received federal aid. The Scorecard reports the average amount students borrow and loan repayment rates after graduation. But while the Scorecard is a useful tool, the data is limited to averages by schools, O'Sullivan says. The results could be very different depending on the specific degree you earn. "Right now, it's all lumped in together," he says.

10 What if my student has trouble repaying his debt?

It may sound premature to consider how your student will manage to pay off his college loans before he's even matriculated. But the first debt payment is due six months after graduation on most federal student loans. Even if you've made smart choices about college financing all along—choosing an affordable school, limiting borrowing—that could still turn out to be a struggle. If it does, your student will need to understand the options.

There are several. Federal college loan payments can be deferred if a student goes back to school or for hardship, although interest may continue to accrue. If he is struggling to pay, he may be eligible for income-based repayment programs. If he works in public service, which encompasses a wide range of organizations including nonprofits, government jobs, and teaching, there is also the possibility of having loans forgiven.

Marvin Logan, Jr., who graduated in 2015 from Kent State University, is counting on a federal public service loan forgiveness program to help him manage nearly \$80,000 in student debt.

Once out of grad school, his plan is to elect an income-based repayment plan, which should limit his monthly payments to 10 to 15 percent of his income and spread payments to 20 to 25 years. Then, if he remains in the nonprofit world for a decade and has been making steady payments, the balance of his loan will be forgiven. ■