

## **Student Loans: When to Start Paying Them Off - Transcript**

**Tom Mullooly:** In episode 94, we're going to talk about a topic on everyone's mind's lately, student loans.

Welcome to the Mullooly Asset Show. I'm your host, Tom Mullooly. This is episode number 94. Getting close to episode number 100. Tim, we're going to have to come up with something pretty good about that.

We get asked all the time, "Where do you get these topics? How do you come up with things to talk about?" We get them from you. We get them from our listeners to our podcast to our viewers of this video and our YouTube channel and our clients. Feel free to chime in if you've got a question. You may see it featured on an upcoming video.

Tim, what are we going to be talking about today?

**Tim Mullooly: "Should I start paying off my student loans as soon as possible?"**

**Tom Mullooly:** Alright. We get this question a lot. Student loans are a topic that we talk about all the time with clients, not only for their children, but sometimes for themselves with younger clients. It's really important, and, in fact, CNBC had an article on their website asking the very same question, "Does it make sense to begin paying off a student loan even before graduating?"

First of all, if you can do it, I think it makes a lot of sense because today the average student loan in 2017 was \$40,000. Most student loans are structured so you have that grace period from the time you graduate until six months later before you need to start making minimum payments. If you have a job, or if you have some access to cash flow, why don't you start sooner? You're only going to finish sooner.

There is a website that they mentioned in this CNBC post, and we'll link to that in the show notes. The website was called Student Loan Hero. They showed their numbers saying 44.2 million Americans owe \$1.5 trillion in student loan debt. Doesn't that sound terrible? 1.5 trillion of anything is a gigantic number, but do the math. I happen to have a calculator that goes out to like eleventeen zeros. If you do the math, it actually works out to be about \$34,000, and that seems pretty manageable, at least in my opinion. \$1.5 trillion is a sure attention-grabbing kind of number. Don't get hung up on the overall numbers. Let's break it down into bite-sized chunks.

Again, when would you want to start getting out of debt? As soon as possible. Remember the two things. You've got that six month grace period. What happens is a lot of people start working, they get a couple of paychecks under their belt, and then they start spending the money. Then a few months later, don't forget, you have to start paying back your student loans. That's a problem. The other thing that we talk about all the time with debt repayment is the invoice or the little bill payment that you get for your student loan, car loan, whatever, that's the minimum payment. You can always pay more. You should really think about that.

Another benefit to making payments sooner rather than later is you're going to start getting a head start on building a good credit history. You really need to consider how you can start chipping away at student loans even before graduating.

There's another website that we're going to link to in the show notes called The Fat Pitch. I really love this site, and you should check it out too. They've got a lot of great articles that breakdown some misconceptions or misunderstandings. They made a post on June 11, so about 10 days ago back, and the title was "It's Time to Not Freak Out About Debt Again". It talked about how the default rates on student loans is actually falling, and they linked to an article in the Wall Street Journal. In fact, student loans make up approximately 10% of all consumer debt out there.

When we talk about household debt, in the very same post, they talked about the lion's share of consumer debt is mortgage payments. That's about 70% of it. Then you've got car loans, student loans, you also got credit card debt. If you actually put this all together on a per capita basis ... When we talk about per capita, that means per person. There's more people today than ever before in the United States, but if you do this on a per capita basis, we're at the same level in terms of consumer debt that we were at in 1985, over 30 years ago. Don't get hung up on the student loan disaster because it seems pretty manageable when you break it down into bite-sized chunks.

For your individual situation, or your family's individual situation, get started on paying down that debt as soon as possible. The biggest trap we've found when people come into our office is they say, "I got into these spending habits because I started getting some paychecks, and then the student loans started coming up about six months later." It's always a problem.

Thanks for watching episode 94. We look forward to seeing you again on the next one.