

DEC 16, 2015 @ 12:13 PM 12,580

# 6 Ways to Better Manage Your Student Debt in 2016



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It's New Year's Resolution time, and if you're reading this, it's fair to say that managing your student debt is at the top of your list. You are not alone. According to the Federal Reserve Bank of New York, "[student loan debt is the only form of consumer debt that has grown since the peak of consumer debt in 2008. Balances of student loans have eclipsed both auto loans and credit cards, making student loan debt the largest form of consumer debt outside of mortgages.](#)"

As a financial adviser in Maryland, I often work with individuals that are in their late 30's and early 40's who are still paying back their undergraduate and graduate student loans. I'm always surprised when I read articles that claim student loan holders don't understand the gravity of their debt. This has never been my experience with you. You are acutely aware of your debt burden and seek out guidance in articles, from professionals, and at college career and financial aid centers. I know student debt is at the top of your mind, so with a new year around the corner, I've included below some actionable items that can help you start your 2016 in the right direction.



*StockSnap.io, 12/16/2015*

### **Take Inventory of Your Debt**

Create a list of all your liabilities starting with the highest cost debt first. Typically, private debt is costlier than federal loans. You need to begin to retire the highest cost obligations more aggressively. And, if you have credit card debt, you need pay it off in full whenever possible. Even a small credit balance can work against you due to the interest that can accrue on both the balance and the subsequent month's purchases.

### **Alert Your Lender and Prepay Your Loans**

Even if it is a small amount each month, a prepayment will reduce the amount of interest you pay and the length of time you have the loans outstanding. You may need to let your lender know that you want to pre-pay your loan with these extra payments. If you overlook this step, the lender may apply your intended "prepayments" to your next

payment and then not bill you. This would counter what you are trying to accomplish so make sure that you check with the lender first!

### **Check If Your Loans Are Tax Deductible**

In certain cases, student loan debt is tax deductible. Your deduction can reduce the amount of your income subject to tax by up to \$2,500 subject to income limitations. The student loan interest deduction is claimed as an adjustment to income; therefore, you can claim this deduction even if you do not itemize deductions on Schedule A (Form 1040).

### **Consider Consolidating Your Loans**

First, think of your financial objectives. Let's consider that you are trying to qualify for a home mortgage to buy your dream house. In this case, you may want to lower your monthly student loan payment to qualify for better mortgage terms. By consolidating your loans and lengthening your repayment schedule you may improve your approval prospects. On the other hand, the amount of your student loan debt can negatively impact your mortgage approval process. If this is your situation, you may want to pay off the debt as soon as possible by accelerating repayment. In either case, calculate the impact the consolidation will have on your overall financial plan.

### **Live Below Your Means**

A key to just about any financial plan is to spend less than you make and save the difference. I know this can be difficult, but once you get the debt burden off your back you can use the cash that had been going to the bank to enjoy as you wish – which could mean that you will now send it to an investment account.

### **Consider Borrowing Against Home Equity While Creating a Repayment Plan**

Since 2008, people have become more cautious when accessing home equity, and that is a smart thing. But, if you are fortunate enough to own a home with some equity in it, you should consider a “cash out refinance” to benefit from potentially lower cost debt that may be tax deductible. You could also consider a home equity line of credit as its interest may also qualify for a tax deduction and it might also carry a lower rate. I abhor borrowing against home equity for vacations or non-essential luxuries; however, I can support your strategy if your intent is to lower your costs of student debt while systematically paying the loan back. Keep in mind there are many IRS requirements to adhere to, so please check with your tax advisor.

When it comes to managing student debt, the best approach is a calm and logical one, and the New Year is the perfect time to try a new approach. In 2016, take a step back and assess your situation from a different vantage point – make a list of your obligations, think of your objectives, and remember that you have options. Lenders and financial professionals will work with you; all you have to do is ask.