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**In Debt to Your Degree**



*Brian Taylor*

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*By Professor Pennywise*

As strains of "Pomp and Circumstance" waft across the perfumed spring air, it seems just the time for Pennywise to take up cudgels against the staggering debt levels plaguing university graduates.

Both undergraduates and those seeking a Ph.D. all too often find themselves in the cold embrace of debt these days. One reason is the pernicious ubiquity of credit cards, with punishing rates of interest. Another is the decline of federal student aid, replaced by loans. Tuition inflation is a third. We could go on.

To those mired in debt—both students and faculty members—this column is for you. Moralists may blame your debt on character defect, but given a lousy job market (academic and otherwise), usurious interest rates on credit cards and private loans, and stagnant real wages for most Americans, your debt most likely has some origins beyond your control. Perhaps you were just getting by as a junior academic and then down came the furloughs.

Pennywise believes that much of the household debt explosion of the past 30 years is a consequence of consumers borrowing simply to tread water, combined with ruthless, predatory lending practices—including by mainstream banks. (Turn over your MasterCard or Visa and you'll likely see Citigroup, Capital One, Bank of America, or JPMorgan Chase, the four banks that account for 80 percent of the credit-card industry, according to *The New York Times.*)

Anyone can fall into the debt trap when hit by unexpected adversity: chronic health trouble, a death in the family, a downsizing. In times like that, overspending happens.

But to be ruthlessly honest, a permanent state of credit-card debt—year in, year out—is a sign of living beyond your means. If you grabbed up an iPod, iPhone, and iPad on credit, the iProblem is all on you, dawg.

We aren't doing remorse here, though; this is about the future. Whatever profligacy lies in your past, you do not deserve to spend eternity with a monstrous chain of debt clanking around your neck like the ghost of Jacob Marley in Dickens's *A Christmas Carol.* It's time to stick it to the modern-day Scrooges in their skyscrapers counting houses. Let's get you free of debt. It won't be easy, but it is doable, given resolve, perseverance, and a plan of strategic action. Here's how:

**Take responsibility.** No matter how you got in this predicament, only one person can free you from it. Look around. Is anyone else offering to pay off your debt?

**Buy only the life you can afford.** To erase debt, you must spend less than you bring in. That means you must control your spending. If you notice a pattern of credit-card expenditure followed by regret, then cut up all your cards and throw them away—or at least put them on ice or in a drawer. Keep only a debit card in your wallet. Instruct the bank to turn off the overdraft protection so you can spend only if there is actually money in your account. Either get personal-finance software like Quicken or just collect your bank and credit-card statements for a month. Look over your expenses. What can you cut? Could you rent more cheaply? Do you really need 137 channels? Should you eat in more? Nothing is off limits. If you free up $150, $375, or $600 a month to put toward debt reduction, your debt will begin its descent. Sacrifice. Get out of the red and into the black.

**Tally your debt.** Before you can conquer debt, you have to know its extent. Download a free credit report at AnnualCreditReport.com (this site, unlike its competitors, will not fleece you). The report will detail your credit history and status, enabling you to know your total debt, since it will identify every loan in your name. Alternately, you can save all your credit-card bills and other financial statements for a month and determine your total in credit-card, student, auto, and mortgage debt. Track this monthly, whether in an Excel spreadsheet, personal-finance software, or a simple piece of paper tacked above your desk. Your objective: zero balance.

**Pay the minimum religiously.** Late payments result in fees, high interest rates, and a disastrous credit rating. Pay your minimums on time, every month, without fail.

**Go beyond the minimum.** If you make only the minimum payment, it will take you decades, literally, to repay a loan. The minimum goes mostly to interest, not principal. Pay more—much more—than the minimum.

**Pay off your lowest-balance card first.** That will give you an immediate morale boost, eliminate one mandatory payment (freeing up money you can use to pay down another debt), and improve your credit rating (which affects what rates you are charged).

**Next focus on your highest-interest card.** Determine your rates (the APR's) by looking at statements or calling each card issuer. Any interest rate north of 20 percent is killer, but even run-of-the-mill rates of 14 to 18 percent are ugly. Rank your credit cards, with the highest-interest one on top and the lowest at the bottom. Pay off each card in sequence, eliminating the most expensive first. Do that, and you'll achieve success faster and pay far less interest in total.

**Transfer balances.** Use Bankrate.com or similar sites to find a low-interest-rate card. Consider transferring high-interest balances to it. But be attentive: A transfer fee will likely be charged, and after a teaser time the interest rates may go sky-high. Do the math, because consolidation may not be worth it.

**Find new income.** Do you have books, CD's, or clothes to sell on eBay or Half.com? Could you tutor high-school students? Moonlight in an SAT-preparation center? Read AP exams? Proofread for a publisher? If you add an income stream or two to your current ones, put any resulting cash to debt reduction.

**Call your creditors.** Tell them you are organizing a financial turnaround and ask for a reduced rate or minimum-payment level. More is negotiable than you might imagine. If you are severely delinquent, ask for balances to be slashed. Be polite, but assertive. Ask to speak to a manager if the frontline employee is unhelpful.

**Tap your wealth.** Retain an emergency fund of three months' expenses, but if you have other savings devote them to debt reduction, which boasts a guaranteed return. Other wealth can be deployed. If you have a Roth IRA, you can retrieve past contributions. A home can be tapped for equity, or an employer-based retirement plan borrowed against. But think hard before depleting such assets.

**Restructure.** If you are in real trouble, a nonprofit credit-counseling service may be the way to go, but beware high fees and scams. Bankruptcy, the last resort, wipes the slate clean—in the fashion of a neutron bomb.

Once you start paying down your debt, you'll start to feel better. Unless you are a saint, you may backslide once or twice, but pick yourself up, chip away steadily, and you will get there. This you owe—to yourself.

*Professor Pennywise is the pseudonym for a professor in the humanities who has taught from the Pac-10 to the Big Ten. He is merely a frugal academic, not a financial professional. Send questions and suggestions to* *professorpennywise@yahoo.com**.*

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