

Diversifying

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Don't Bank on Debt Forgiveness



Speakers

Delyanne Barros, Meryl, Nika Booth

00:00:00

Delyanne Barros

Hey, everyone. As you probably know by now, President Biden has extended the pause on student loan payments until August 31st. Many of you are still waiting to see if the president will forgive any of your loans. So we'd like to reshare one of our first episodes. You'll hear from a listener about her student loan journey, and then we'll tell you how to start tackling your debt today, especially while it is not gaining interest. Make sure you follow diversifying in your favorite podcast apps so you don't miss an episode. And if you like what you hear. Leave us a review. So other listeners discover the show too. Over 43 million Americans have student loan debt and a third of college students in the U.S. have to take out loans. But I really wanted to hear from all of you and how loans have affected your life. So we opened up our phone lines.

00:00:55

Meryl

Hi, Delyanne. My name is Meryl and I am from Boston. I'm 33 years old and I graduated from undergrad with over \$100,000 in debt.

00:01:04

Delyanne Barros

I just knew I needed to call Meryl back. Her story speaks to a lot of us. Hello.

00:01:10

Meryl

Hi.

00:01:11

Delyanne Barros

Hi. Meryl I'm Delyanne. Nice to meet you.

00:01:14

Meryl

Nice to meet you.

00:01:15

Delyanne Barros

She told me she didn't really understand how serious her student loans were until after she took a personal finance class in college.

00:01:23

Meryl

As a part of it, we kind of had to audit our finances, and then I plugged in my own numbers at that time, and then I was like, Oh my gosh, I can't believe that this is the situation that I'm in. I guess that's when I learned how interest worked and not in a good way.

00:01:37

Delyanne Barros

When Meryl first got into Northeastern University, she was really ready to break out on her own and get started on the next chapter of her life. To her, it felt like the expense didn't matter. She stitched together financial aid, student loans and a merit scholarship. She was determined to go, but Meryl had a rough first year of college.

00:01:57

Meryl

We got our grades back at the end of the first semester and we were like, Oh my gosh.

00:02:02

Delyanne Barros

She didn't fail any classes, but unfortunately her grades weren't good enough to keep her merit scholarship.

Meryl 00:02:08
The primary emotion was just fear and shame. There was a lot of shame. And then there were some sort of panic around What are my parents going to say and what's my next step going to be?

Delyanne Barros 00:02:21
Did you ever think about dropping out of college and trying out a different way?

Meryl 00:02:24
No. No, I never. It was always just survival mode of how am I going to stay here? How am I not going to leave Boston? I don't remember ever giving air to a different alternative path. Yeah, it was just. All right. What do I got to do? What do I have to do to stay here? Where's this extra money going to come from? And I guess it's going to come in the form of loans.

Delyanne Barros 00:02:46
So Meryl took out a private student loan, even though it had an 11% interest rate, more than double the rate of most federal loans. By the time she graduated college, she owed \$120,000. Her minimum payments cost her as much as her rent.

Meryl 00:03:03
There was definitely this very defeated sense that, okay, this is my lot in life. I'm going to be paying loans for the rest of my life. Not looking at it, not talking about it was my way of just dealing.

Delyanne Barros 00:03:18
And this right here is why I'm telling you Meryl's story. When faced with a mountain of student debt, it's really easy to feel defeated, like there's no way out. I know a lot of you feel that way, too.

Caller Christie 00:03:32
And I feel like sometimes it'll never be done. Even though I know that I'm paying it off more aggressively than others.

Caller Jessie 00:03:41
How much money I was making compared to how much I owed out was just really upside down.

Caller Hillary 00:03:48
It's felt like a chain, like a ball and chain that I'll never be able to get rid of.

Delyanne Barros 00:03:54
Look, I'm not here to tell you that debt doesn't suck. It really sucks. What I can tell you is that even if it feels hopeless, you can handle it. With some careful steps, Meryl was able to get things back on track. You're going to be completely debt free by March 2023.

Meryl 00:04:10
Yeah, I should be.

Delyanne Barros 00:04:12
Oh, my God. That's amazing. That's way better than 2050. Yeah.

Meryl 00:04:16
It's so much better than 2050.

Delyanne Barros 00:04:17
What do an improvement!

Meryl 00:04:19
So in that sense, I'm really. I'm just grateful. Super grateful. Yeah.

Delyanne Barros 00:04:24
A plan is a magical thing, y'all. And today we're going to talk about how you can figure out a plan of your own so you can tackle your student debt. We're going to go through this step by step and leave you with some practical guidance you can actually apply. I'm Delyanne Barros. Welcome to Diversifying a new money podcast from CNN. The minute we decided to talk about student debt, I knew exactly who I wanted to bring on the podcast to help us out.

Nika Booth 00:04:58
I am Nika Booth. I am an award winning personal finance content creator. I am also on a journey of my own to tackle six figure debt, and I am the voice and creator of DebtFreeGonnaBe this little modest personal finance community on Instagram.

Delyanne Barros 00:05:16
She is too modest, y'all. This is a page that everyone must follow. Honestly, if you're on a debt free journey, if you need some money mindset checks, if you need a laugh, get on it all right.

00:05:29

Delyanne Barros

Okay. Well, we are here to talk about that. I don't know if you've heard about this issue. That's a little interesting. In the personal finance community, it's about student loan debt.

00:05:39

Nika Booth

Oh, my goodness.

00:05:41

Delyanne Barros

I don't know if anybody has talked to you about it, but it's a huge, huge problem. Right.

00:05:48

Nika Booth

We're in a student loan crisis. There are \$1.7 trillion in student loan debt. And so, you know, when I say it's a crisis, I mean, it's a crisis because this debt is just looming over the heads of so many people. And it's preventing them from being able to do things like get married, have children, own a home. Which, you know, we talk about is one path but not the only path to building generational wealth. You know, and they're stifled.

00:06:17

Delyanne Barros

Nika's speaking from personal experience here. She's been posting about her journey to become debt free since 2018. She once owed \$211,000, a mixture of student debt, credit card and outstanding tax debt. Nika's really open on her page. She admits that there have been times when she's struggled with mental health and almost given up completely on trying to pay off her debts. Nika's made incredible progress. She's already paid over \$77,000, but she still has about \$134,000 of student loans left. Over the years, she's become an expert at handling her debt, and she wants to pass along everything she's learned, including her mistakes.

00:07:01

Nika Booth

Oh, my goodness. I'm a cautionary tale. I'll just go ahead and say that, like I'm sure the listeners would be like, Oh, yeah, she's definitely a cautionary tale. It's okay. I recognize it too. And I have a blog post where I share that my student loans are my biggest money regret and they are. I do not regret the education that I obtained as a result of the loans. I regret the choices I made with regard to my student loan. So first things first do not take more than what you absolutely need for it, right? I was famous for taking the max disbursement every single semester well beyond tuition fees and supplies. And I lived off campus, so there was no housing that I needed to pay for. And I did that every single semester for all of the years that I was in school. It wasn't my money, but I didn't treat it that way. Jillian, I blew it. I can't tell you the things that I spent that money on, so don't do that. Don't do what I did.

00:08:06

Delyanne Barros

What do you think led to that? Like, why did you react that way?

00:08:09

Nika Booth

I think a lot of it has to do with one. I didn't read the promissory note and even if I did read the promissory note at that age, you know, growing up, not having money conversations, not really understanding how money works. You've got 17, 18 year old who now has access to money and didn't really do anything for it. You know, I didn't I signed a paper that I didn't read. I didn't understand, you know, that I'm basically mortgaging my future and that this money would come due at some point. And I think that's why I think it's I don't know the saying, but it's something about when people get money and they've never had it, you don't know what to do with it.

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Delyanne Barros

And you know what that makes sense because when you look at generational wealth and people who have inherited money out of nowhere, most of them lose it right very quickly because they have not been taught the skills or how to manage money and maybe they never had it. And all of a sudden there's this big influx of cash and they're overwhelmed by it. And there's such a scarcity mentality that plays into that where like this money may disappear any minute now, so I better spend it. I may never see money like this again. Right. And the source is kind of irrelevant. And this is a huge decision that's being imposed on 18 and 19 year olds.

00:09:29

Nika Booth

Exactly.

00:09:29

Delyanne Barros

Like what's. I had no idea how interest worked. I had no idea that asking for forbearance and deferment all those years after I graduated law school, what that impact was going to have on my balance. Yeah, I think a lot of people don't realize that, but I needed the breathing room, so my mistake would be that like all the deferments and forbearances that I opted for without understanding the real impact on my loans.

Nika Booth

00:09:55

I'm glad you mention that, because that was another mistake I made. I maxed out my forbearances and the difference. Like if no one knows the difference between deferment and forbearance, they're very different. You know, deferment typically interest does not accrue when you are deferring your loans. That's usually because you're in school at least half time or part time. You have graduated or left school and there's this grace period. So you're not accruing interest at that time. Forbearance. On the other hand, you can just call your loan servicer and ask for forbearance without really explaining why or providing any type of documentation. And it allows you to continue to suspend your payments, but that interest is still accruing. So not only did I max out the opportunities for forbearance to the point where I have maxed out every opportunity to actually suspend my payments. But on top of that, the interest was continuing to accrue. So you would get these statements in the mail, but in bold letters at the top it would say, this is not a bill. So when I see that, you know, I'm like, okay, I don't owe this money. I'm going to just toss it to the side. The thing, though, about forbearance and getting those interest statements, it's not a bill, but it's telling you how much interest has accrued on your student loans. And that's the interest that's going to be now added on to your actual loan balance. And then that interest that's added to your balance will end up accruing interest as well. So my biggest mistake was maxing out my forbearance and not paying those loans when I was financially able to do it, because I also didn't have a budget and I wasn't taking the student loan payments seriously and then getting to the point where I've now earned at least I think the last time I checked, it's like 20,000 additional dollars in interest over my original loan balances. It's insane.

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Delyanne Barros

It is insane. And it's heartbreaking, really at the heart of it. But another thing that you bring up is talking about your past money, mistakes without judgment. People look at their past money mistakes and they judge themselves way more harshly than they need to. And that is so detrimental to your journey. So just giving yourself a break like the stuff is hard. Paying off debt is difficult. It is probably one of the most difficult things I have ever done. And so, you know, acknowledging that that this isn't something that comes naturally to you, you're probably doing this all on your own. And it's okay to feel overwhelmed at times. And if you need to take a break from your debt free journey, take a break.

00:12:35

Nika Booth

Take a break. I say rest, but don't stop. Your feelings are valid. But we don't live in the past, right? The past is a past and there's nothing that we can do about it. And so I always encourage people who are feeling, you know, shame and guilt and negative feelings associated with those past money mistakes. Acknowledge them, but understand that that stuff happened in the past and that was based off of resources and information that you had at the time. And now we're here today and present, and you have a toolbox of, you know, tools that you can use now that you didn't have before. And so we're going to focus on the present and we're going to focus on where we're trying to go in the future.

00:13:16

Delyanne Barros

We're going to take a quick break. But when we get back, we're going to dig into the nitty gritty of how to tackle your loans today. Welcome back to diversifying. I'm Delyanne Barros here with Debt Slayer Nika Booth. When it comes to actually paying off your loans, one of the main things Nikka recommends is just making sure you've got a good understanding of what you actually owe. You can't figure out a strategy for repayment. If you can't face your numbers.

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Nika Booth

The first thing in identifying what you have going on and how to begin to tackle them is to know what types of loans you have because there are different loans. And the unfortunate thing about the varying loans is that they carry different interest rates, too. And another thing people may not even know is, well, who owns my loans? Like who is my loan servicing? You know, and I tend to just point people to student aid dot gov, which is basically your hub as a borrower where you can see the types of loans you have the loan details as well as your current loan servicer.

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Delyanne Barros

Oh, that's such a good resource. I'm so glad you brought it up. So, yeah, I think it's so important to know that even though you owe an X amount, like a total amount, that your loans are probably divided up until several smaller loans. And there's a little strategy you can use to help pay them off. Right. So I know you use this. I used it, too, and it's called the debt avalanche. Can you explain what it is and tell people how they can use it to?

00:14:52

Nika Booth

Absolutely. So the debt avalanche is one of two common debt repayment plans. And the debt avalanche involves tackling your debt with the highest interest rate first. Verses the debt snowball, which is the other common repayment plan where you tackle your smallest balance first regardless of the interest rate. But why we love the debt avalanche method so much is because mathematically it just makes sense. You end up paying the least amount of interest over the time. It takes you to actually pay off the debt because you're tackling that high interest rate balance first.

00:15:31

Delyanne Barros

Yeah, I mean, that's the way to go and it's going to save you the most money in the long term. And I'm all about that.

00:15:36

Nika Booth

That's the whole idea. I like to hold on as much of your money as you possibly can.

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Delyanne Barros

I asked Nika how important it is for people with student loans to do that one thing everybody avoids doing.

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Nika Booth

Does it start with a b?

00:15:50

Delyanne Barros

Start with a, b? It does.

00:15:52

Nika Booth

Yes.

00:15:53

Delyanne Barros

How important is it, Nika, to budget when you're in this debt payoff phase?

00:15:58

Nika Booth

It's important even if you're not in the debt payoff phase like having a budget. I mean, if you don't like the B word, call it a spending plan. If you want, like you can call it whatever you want, but you have to have some type of boundary and structure to how you spend your money. And I promise you that, especially when you are in this debt repayment phase, being on a budget will feel like you have more money. It will feel like you got a raise. So it's very important, you know, and it's just as important to know what income you have coming in because, you know, you put the wrong thing in the GPS, you're not going to go to the destination that you want to go to. So it's literally a roadmap for your money. So it's important, especially when you are repaying your student loans because you'll have an idea of what you can actually afford to pay.

00:16:45

Delyanne Barros

Yeah, I couldn't agree more. I mean, it's not something that has to be as strict. I think it depends on, you know, what you're struggling with. You may have to do it for a few months, build a habit, but then you can, you know, switch over to like an app that tracks it for you and you don't have to, like, be living inside of a spreadsheet. Then you can get to the point where you can kind of just eyeball things and you're like, Hey, I'm on track and it's such a great feeling, but it doesn't come out of nowhere. It doesn't happen by accident and it starts with the almighty budget.

00:17:16

Nika Booth

Yes, it does. Yes, it does.

00:17:18

Delyanne Barros

You know, the most common question I get, I'm sure you do, too, is, well, how do I find the money to start paying off these loans? Right. And what I tell people, the first thing you have to do is recognize, like, is there an income issue here or is there a spending issue? Because if it's I literally have optimized my budget, I've cut back on all the frills and there is no room. I have no room. I have no extra money to throw to my debt. That is an income issue, right? We need to increase your income. Whereas if somebody's like, I don't know, I just at the end of the month, I don't know where the money goes and I don't have anything extra to throw at a student loan. And usually the situation there is we need to tighten the budget, we need to see what's going on, and that's a spending issue. So what do you say to people in the income situation?

00:18:06

Nika Booth

Yeah, and a lot of people are in this situation, unfortunately. You know, if you don't have the income, you've got to find it, right, because you can't just magically make it appear. So I often tell people to kind of look around them. You know, I've shared this a lot. I love selling the things around the house that I no longer, you know, that I no longer use. And it may seem simple, but, you know, just think about some of the things that we've purchased. That are, you know, kind of sitting in a corner collecting dust that we don't use anymore. It used to be money, you know, and some of us can actually say it used to be money that we really didn't have in the first place. Right. We likely acquired it with debt. And so selling that stuff will give you at least something you're likely not to get the money that you spent on it originally, but you can get something for it rather than it collecting dust or immediately ending up in the landfill. Agreed. But if you're looking for something more long term to have a consistent increase in income coming in, sell your services. There are tons of platforms now like Fiverr where you can, you know, do copywriting, proofreading. I mean, there are places that you can teach children in other countries English. So, you know, I'm not really big on the gig hustle because it can get overwhelming, right? You can gig yourself and be completely exhausted. But I think finding some type of side hustle that you enjoy and that you feel the time is worth it can be a catalyst in helping you repay your student loans and finding that extra income that you need.

00:19:41

Delyanne Barros

Absolutely. I couldn't agree more. I mean, listen, my side hustle turned into a full on business.

00:19:46

Nika Booth

Yes, it did. I'm so proud of you.

00:19:49

Delyanne Barros

And it helped to pay off my loans. It turned into a whole thing that I never expected. And I'm not saying that's going to happen for everyone, but it's worth a try. And if you're doing something that you like anyway, what's there to lose? You learn something and you got to do something that you love. Anyway, I usually tell people, if you do it for free, then charge for it.

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Nika Booth

Absolutely. And I'm sure people will pay you for it.

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Delyanne Barros

I hope all of this knowledge is empowering, but if you're still feeling overwhelmed, that's okay. Nika has one more thing for you to keep in mind.

00:20:22

Nika Booth

Don't look at how much debt you owe as a whole. Like, yes, acknowledge it. But it doesn't need to be over your head and in your face every day. So I have this saying, you know, the best way to eat an elephant is one bite at a time. And what I mean by that is I don't mean to eat actual elephant, but what I mean is you take this huge mountain that's in front of you, right? And you break it down into smaller, more digestible chunks with built in goals. So it's like, okay, extra 500 this month. And then once you do that, you build up with your side hustle in increasing your income, you bump it up to \$1,000. So I think the best way to manage the amount of student loans you owe and the amount of debt you owe and to overcome it emotionally and mentally is to break it down into smaller chunks and set mini goals and build in little rewards after each goal is met.

00:21:12

Delyanne Barros

I love that. I mean, that's obviously a very actionable step that everybody can take. Nika, thank you so much for being so vulnerable online on the episode.

00:21:21

Nika Booth

Oh, absolutely.

Delyanne Barros

00:21:22

Thank you. That was Nika Booth. You can follow her on Instagram at DebtFreeGonnaBe. It's time for this episode's, Money Gems. We know we cover a lot in every episode, so we want to highlight the best tips so you can take action. So here are the top five gems for tackling your student debt. Courtesy of Nika Booth. Gem number one, It's time to face your numbers, get a good understanding of all the different loans you have, the interest rates and who you owe. Nika mentioned a great website where you can do this student aid dot gov that's going to help you start making a plan. And part of that plan might be gem number two, the dreaded but very necessary budgeting. A budget lets you tell your money what to do. You can decide how much you're willing to pay towards your loans, so you still have room for the fun stuff. Gem number three Save forbearance for emergencies, know that you're still being charged interest and that delaying those payments will cost you money in the long run. Gem number four If you're about to take out loans, don't take out more than you need. You'll have to pay it all back with interest. Finally, gem number five. I think this is a good one. No matter what money topic you're talking about, don't judge yourself for money mistakes you've made in the past. You can't change what's already happened. Next Monday. We are back with the new episode and some of you may hear familiar voices.

00:23:03

Caller Peyton

I'm calling in to ask about money as it relates to relationships specifically. I'm getting married next year.

00:23:12

Caller EJ

I had a question about convincing yourself you deserve to be rich.

00:23:18

Caller Lauren

Should we be contributing to hustle culture. Or should we just say one really good job?

00:23:25

Delyanne Barros

You all called with some great questions. And next week, we're going to walk through some of them together. Make sure to follow us so you don't miss it. And if you like what you heard, please recommend the podcast to your friends and family. Then give us a rating and a review. It's really helpful, especially since we're just starting out. Diversifying is a production of CNN audio. Megan Marcus is our executive producer and Haley Thomas is our senior producer. Our producers are Alex Stern, Kinsey Clarke, Eryn Mathewson and Madeleine Thompson. Our associate producer is Charis Satchell and our production assistant is Eden Getachew. Mixing and sound designed by Francisco Monroy. Artwork Designed by Brett Ferdock. Original Music by Andrew Eapen. Our technical director is Dan Dzula. Rafeena Ahmad leads our audience strategy. With support from Chip Grabow. Steve Kiehl. Anissa Gray. Abbie Fentress Swanson. Tameeka Ballance-Kolasny, Ashley Lusk. Lindsay Abrams. Lisa Namerow, and Courtney Coupe. I'm Delyanne Barros. Thanks for listening.