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Wealth Check: The £30,000 burden that awaits on graduation

What can a student do to cope with the cost of university life and the debt that must be repaid later? By Harriet Meyer

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The patient

Helen Stevens, 20, is keen to enjoy her remaining two years of student life before tackling the £30,000 debt she faces on graduation. She estimates she will owe this sum, made up of tuition fees and maintenance loans, on completion of her four-year degree in French and German at University College London (UCL).

"We're always hearing about how awful debt issues are, yet in doing a degree you can't avoid it," says Helen, whose family home is in Leamington Spa in Warwickshire. She borrows the full tuition fee loan of £3,070 a year, in addition to an annual maintenance loan of £4,735, which is put towards living costs. Her parents pay her rent, which last year was £130 a week for a room in a shared London flat.

"I couldn't afford this on top of food and travel bills," Helen explains. "London is the most incredible and lively place to study, but it's so expensive."

To help make ends meet, she has been working part-time in a clothes shop, as well as temping during the university holidays. She is now preparing to spend the next year of her studies in Innsbruck and Paris, before returning to London for her final year.

She is set to receive an Erasmus grant – a contribution available to EU nationals studying in other European countries – for her year abroad. This will be paid in two instalments of €1,125 (£912) and €€450.

"This and the maintenance loan will cover my flights and general living expenses, and tuition fees do not have to be paid for my year away," she says.

In preparation for studying overseas, Helen has opened a Nationwide current account to take advantage of fee-free ATM withdrawals abroad. She also has a NatWest student bank account, with a £1,250 interest-free overdraft limit.

"I'm usually overdrawn, although the amount varies and so far I have managed not to exceed the limit. I stay away from credit cards, though money is tight."

After Helen graduates, she plans to pursue a career in advertising. But while she hopes this will be successful, she reckons owning her first home is a distant dream.

"I see myself having to rent for a long time, particularly as I hope to stay in London after graduation."

The cure

While Helen will be saddled with debt when she starts her career, plenty of other graduates will be in the same boat.

"And she has done well to avoid slipping over her overdraft limit," says Keith Churchouse from independent financial adviser (IFA) Churchouse Financial Planning. "She should stick with her strategy, and then work

out how best to wipe out this debt."

Debt

Unfortunately, soaring living costs may mean Helen's total debt rises by more than expected over the next two years. However, the interest rate on her student loans is very competitive at just 3.8 per cent for 2008-09 – or half the rate available to mainstream borrowers at a high-street bank.

Graduates are required to pay back 9 per cent of all earnings above £15,000 until their student loan is cleared. "For example, someone on £20,000 a year will find their annual repayment is £450, or £37.50 a month," says Mr Churchouse.

If she hasn't already done so, Helen should see if she's entitled to a bursary. Following the introduction of top-up fees, many universities now offer a range of grants for those who need help with university costs. For further details, visit bursarymap.direct.gov.uk.

Building a structured repayment plan with specific goals for two, three and five years after graduation will help wipe out debt, says Colin Rothery at IFA Throgmorton Financial Services.

In the meantime, there are various methods Helen can use to reduce her borrowings. For example, basic lifestyle changes can make a big financial impact, such as cycling to and from lectures if possible, says Dennis Hall from IFA Yellowtail Financial Planning.

She should also apply for an international student identity card. This costs £9 but offers a range of discounts on travel and flights.

Banking

Currency fluctuations while she's abroad will add to Helen's outgoings as she transfers from sterling to euros, explains Mr Hall. "But the Nationwide account will help as at least it doesn't charge commission on transactions," he adds.

If she believes sterling is going to weaken against the euro, she should consider exchanging her money before she leaves.

Further down the line, when her course is over, she should cast an eye over the graduate package on offer from NatWest to see if it has a good interest-free overdraft limit for at least a year, says Mr Rothery.

Also, any savings that Helen manages to amass over the coming years, however small, should not be used to repay her overdraft unless she has gone over the limit, stress the advisers.

Abbey's e-saver account, for example, pays 6.5 per cent. She can earn tax-free interest by registering as a non-taxpayer with HM Revenue & Customs and completing form R85.

"It's not uncommon for students to take advantage of their tax-free status," says Mr Churchouse. "They can use interest-free overdraft limits alongside the high deposit rates around at the moment"

Property

Fortunately for Helen, house prices are likely to continue to slump over the next few years, says Mr Rothery. So it is no bad thing that she will be unable to step on to the property ladder for a while.

"There are probably going to be more and more properties for let, and she can try to drive a hard bargain on rent," he adds. "She should do her homework by checking which ones have remained empty for some time."

Protection

Travel cover for her time in Austria and Paris should be an important item on her to-do list.

"Speaking to people like the International Student Travel Confederation (istc.org) to see if they have a tailored insurance package may be helpful," adds Mr Churchouse.

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