BUSINESS

# Chicagoans stare down financial cliff as student loan repayments are set to restart this fall



Eric Pillado talks about his educational loan debt while at home with his dog, Cooper, in a Streeterville apartment on Aug. 16, 2023, in Chicago. Pillado is in his sixth year of a seven-year residency in vascular surgery. (John J. Kim/Chicago Tribune)

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Brianna Nesbitt took out her first round of federal student loans in 2010 as an 18-year-old freshman at Carthage College in Wisconsin. Her parents had declared bankruptcy three weeks before school started, she said, so she knew the only way forward was through borrowing.

Nesbitt took on private Sallie Mae loans the following year, finishing her undergraduate degree with close to $80,000 in debt. In graduate school for personnel administration, her tuition was covered by on-campus work, but she took out loans to cover her living expenses and help with her younger sister's undergraduate tuition.

Nesbitt finished her education with about $102,900 in outstanding private and federal student loans. Despite making monthly payments of close to $500 for 13 years, she now owes over $107,000 — more than she owed when she graduated. That's because $23,000 of those loans were private and kept accruing interest through the federal loan freeze.

Nesbitt is one of more than 1.6 million people in Illinois — more than 1 in 10 residents — who were in debt because of federal student loans as of this spring, according to Department of Education data. All in all, Illinoisans owed $63.7 billion in outstanding federal student loans.

Like many borrowers, Nesbitt got a reprieve when payments on federal student loans were frozen during the COVID-19 pandemic. Now, she joins Americans of all ages and life stages staring down a financial cliff as they prepare for student loan payments to restart this fall.



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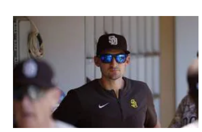

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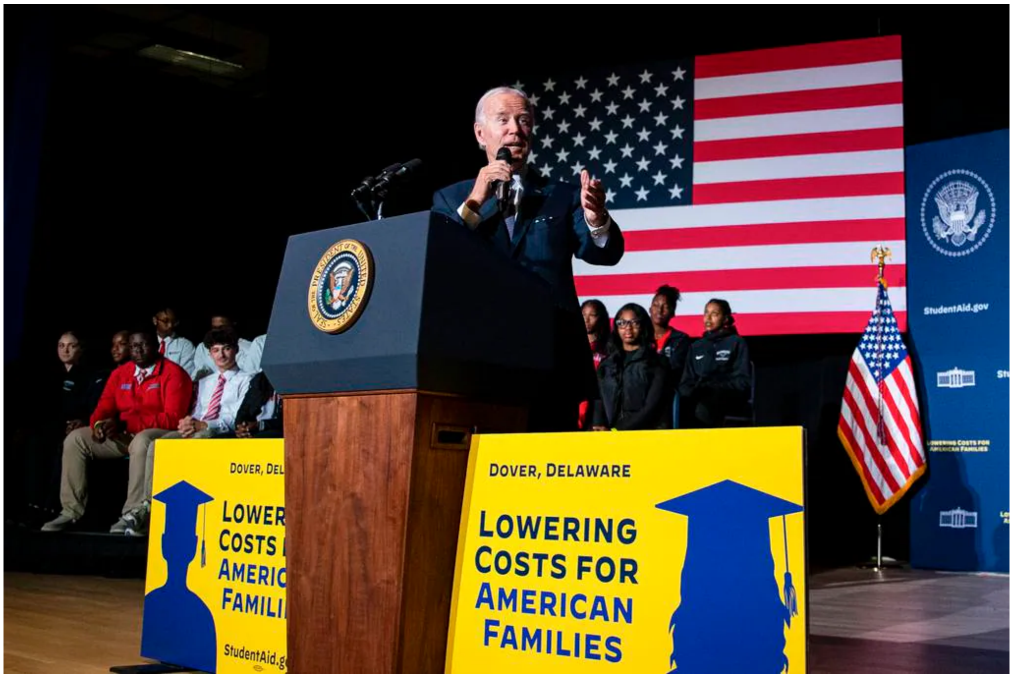


President Joe Biden speaks about student loan forgiveness at Delaware State University in Dover, Delaware, Oct. 21, 2022. (Al Drago/The New York Times)

In June, the conservative-majority Supreme Court struck down the Biden administration's $400 billion plan to forgive or reduce student loan debt for millions of Americans.

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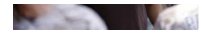
The White House has said that under that plan, 20 million people would have seen their debt canceled entirely. In January, the White House said that more than 1 million Illinois borrowers had applied for or were







deemed automatically eligible for debt relief. That program would have forgiven $10,000 in student debt for individuals making less than $125,000 or families making less than $250,000. Pell Grant recipients would have been eligible for an additional $10,000 in canceled debt.



Now, interest on federal student loans will start accruing at the beginning of September, and payments will be due in October. Borrowers will have a 12-month grace period before missed payments will cause them to enter delinquency.

"I've just been getting so many calls about this," said Patti Hughes, a Chicago-based financial planner who advises people with significant student loan debt. "It's kind of a disaster."

Hughes said many people made significant financial commitments, such as renting an apartment or buying a car, based upon the income they had available when they didn't have to make loan payments.

During the freeze, Nesbitt bought a condo in Uptown and put a year's worth of payments toward moving to Chicago from Nashville.

"I was only able to buy property because I didn't have those loan payments every month," Nesbitt said. "Right now, my financial goals are paying my mortgage on time."

A loan payment estimator told Nesbitt, who works remotely as a student engagement specialist, that she'd have to make payments of $488 a month on her student loans starting this fall.

Nesbitt has since gotten a new estimate of $170 a month under the Department of Education's new SAVE repayment plan, after working with representatives from Fed Loan. Meanwhile, she is searching for a backup plan. She's hoping to avoid taking a second job, as she's down to one for the first time since she began working. She's not willing to sell her condo.

"I literally don't make enough money to pay those loans," Nesbitt said. "So they will not get money from me if that's what they want it to be, because there's literally no way."

In a fall 2022 survey by the Student Debt Crisis Center, a nonprofit that advocates for student debt reform, 30% of borrowers said they would reduce spending on expenses such as food, rent and health care in anticipation of payments restarting. At the time, nearly half of borrowers said they wouldn't be able to afford their payments in six months.

"There were a lot of borrowers who have not made payments for over three years," said Cody Hounanian, the center's executive director. "They have seen what debt relief can mean to their families and their lives. And the possibility that student debt cancellation would happen allowed them to think about a better, brighter future for themselves."

Nesbitt held three part-time jobs in college and spent hours in the financial aid office going over her payments and grants, she said. She's enrolled in the Public Service Loan Forgiveness program, and is about halfway through the minimum payments needed to qualify. Under the public service program, people who work for nonprofits or the government can have their balances forgiven after making a required number of qualifying payments.

But because of her $23,000 in private loans, Nesbitt says she expects to be paying off her debt until she dies.

"I just assume I will always have that payment," Nesbitt said.

The most common amount of federal student loan debt that Illinoisans hold is between $20,000 and $40,000, according to the education department. About 369,000 residents owed that much as of the spring. Nearly 144,000 borrowers owed more than $100,000.

According to a study by credit agency TransUnion, 26% of borrowers restarting payments around the country would have payments of less than $100 a month, while about half were expected to have a payment of more than $200.

Many people who were able to save money during the student loan freeze applied their financial breathing room toward housing goals like Nesbitt did, said Nicole Bachaud, senior economist at Zillow.

“Folks who have student loans have a harder time getting into homeownership, and they say that it’s one of the reasons why,” Bachaud said.

Those still paying off significant student loan debt may be unable to qualify for mortgages no matter how much money they make. Most lenders won’t offer conventional loans to would-be homebuyers whose outstanding debt is higher than 36% of their income, Bachaud said.

Hughes, who said her clients tend to have annual incomes of at least $90,000, is seeing borrowers being stricter with themselves at the grocery store and cutting trips to bars and restaurants.

“A lot of them are really reluctant to cut travel. They want to still take trips,” she said. “So they’re looking at just like their lifestyle and saying OK, well, maybe there are ways to cut that way. Going for coffee, going for drinks, going out to eat and taking Ubers everywhere.”

Andrea Cordes, 29, considers herself “one of the lucky ones.” She’s managed to cut her $19,000 in debt down by nearly half since graduating from Ferris State University in Michigan in 2017.

Cordes said her financial situation stabilized during the payment freeze, which allowed her to establish some extra savings. With her hourly salary of just over $18, she was able to buy small luxuries like the occasional video game.

Andrea Cordes, a receptionist at UChicago Medicine who has student loans, is seen here on Aug. 16, 2023, in the Streeterville neighborhood. Cordes thinks she can pay off her remaining loans within five to 10 years. (Brian Cassella/Chicago Tribune)

In October, Cordes, a receptionist at UChicago Medicine, will add student loan payments back onto her monthly budget spreadsheet. She previously paid $225 monthly toward the balance.

“It’s definitely going to make an impact,” Cordes said. “I’m not paying thousands of dollars for student loans, but it’s definitely cutting into my grocery money because I still have to pay for rent.”

Cordes thinks she can pay off her remaining loans within five to 10 years, but she has seen others in her social circle alter their life plans — some deciding not to have children — around the idea of lifelong repayment.

“It’s one of those things that’s just always in the back of your head,” Cordes said.

For nonprofit employee Taylor Bradley, 32, the federal loan payment freeze was the first time she could build long-term savings. She thought about traveling to bucket-list cities. When she lost her job during the pandemic, the break in payments was a cushion as she found new work at a startup.

“It made me feel much lighter, and like I didn’t have that additional load to worry about every month,” Bradley said.

Bradley had intended to go to medical school after studying genetics at Clemson University. She ended up staying at Clemson to start doctoral studies in genetics instead, but stopped three years in after deciding the program did not have the right resources to support her interests in genetics research.

Six years after leaving her doctoral program, Bradley still owes about $48,000 in student loans, she said.

Now that payments are starting again, Bradley is thinking about getting a second job. She had applied for Biden’s student loan forgiveness plan when it was announced, hoping to receive up to $20,000 off her debt as a Pell Grant recipient.

She said the reversal of Biden’s forgiveness plan has made her feel politically disillusioned, coupled with the looming end of the freeze. She was too young to qualify for the Department of Education’s loan relief package in July, assisting those who have spent 20 years on a payment plan.

“I had been thinking that my debt was going to be almost cut in half,” Bradley said. “That actually made it somewhat attainable, like I would be able to do this and actually knock it off before my 40s. It’s really frustrating.”

Some borrowers may see some relief: Last week, the White House announced that the administration had begun to forgive $39 billion in federal loan debt for some borrowers enrolled in income-driven repayment plans.

Income-driven repayment plans cap borrowers’ payments to a percentage of their income, after which the rest of their debt is forgiven, typically after 20 to 25 years.

The discharges that began last week are an attempt by the Biden administration to remedy what it describes as “past administrative failures” that caused some borrowers’ payments to go uncounted toward forgiveness.

More than 28,000 Illinoisans are eligible for that loan forgiveness program, with their collective debt totaling more than $1.3 billion.

Earlier this month, a federal court of appeals in New Orleans halted a Biden administration rule that would have made it easier for borrowers who say they were misled by their colleges to access student debt relief. The three-judge panel that issued the injunction said it would hear arguments in November.

The Biden administration has said it will seek a new legal avenue for a broader loan forgiveness program in an attempt to circumvent the Supreme Court decision, for which rule-making is ongoing.

Eric Pillado, 32, was working on the trauma floor at Northwestern Memorial Hospital when the student loan collectors called again.

Pillado is in his sixth year of residency as a vascular surgeon and had spoken with private loan collectors about a possible deferment once the student loan freeze ends in October. But this time, the collector didn’t want to hear it, Pillado said.

“It was just me literally in the middle of a hospital hallway during a busy trauma service where there’s active traumas going on,” Pillado said. “In my mind, I’m like, ‘I can’t believe this is my current life.’”

Hailing from rural New Mexico, Pillado attended the University of Michigan for undergrad and UCLA for medical school, paying out-of-state tuition for the former. He also completed two master’s degrees at Northwestern in between medical school and residency.

Public loans got Pillado through undergrad, he said, but he began to feel at a disadvantage when he had to take out private loans to even apply to medical school. Application fees and school tours added up fast, Pillado said. Many of his peers, he said, came from generational wealth and did not have to go into debt for school.

“I don’t regret going to these schools. It definitely positioned me to get where I am,” Pillado said. “But at this point, it’s challenging.”

Pillado is on track to become an attending vascular surgeon in 2025, at which point he says he will not be worried about the ability to pay off his student loans. According to Glassdoor, the average vascular surgeon makes just over $325,000 a year, including bonuses. However, he has over $400,000 in outstanding public and private loans dating back to 2009, some of which are racking up interest.

Pillado won’t have to start paying on his federal loans until at least the end of 2023, since he is still less than six months out from his master’s degree. When he does start paying, Pillado plans to contribute the bare minimum every month until he becomes an attending surgeon.

The high cost of living in Chicago — especially in Streeterville, where he can be easily on call at Northwestern Memorial Hospital — quickly eats up Pillado’s resident stipend, which was about $72,000 last year.

Though Pillado has learned to live frugally in the day-to-day, he worries about how he would pay a large bill in an emergency. The loan freeze had provided some breathing room in his financial planning, he said, while he waits for the higher attending surgeon’s salary to kick in.

“It’s all very terrifying,” Pillado said. “You try to mitigate risk, you try to mitigate any kind of additional loans or just putting yourself in stress, but ultimately, you’re always still thinking about money.”

Pillado hopes to finish paying off all his loans in his 50s. In the meantime, he’s wrapping his head around how his educational costs might affect his purchasing power.

“As a 17-year-old boy, that’s not what I was thinking about,” Pillado said.

"I was just thinking about why I want to be the first doctor in my family, why I want to help people like my parents."

The *Associated Press contributed.*