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Graduating With Honors And $100,000 in Debt

By ROY FURCHGOTT MAY 18, 1997

ON Thursday, Denis Gibbs will don cap and gown to receive a Bachelor of Arts degree from Johns Hopkins University in Baltimore. Soon after he completes his four-year college journey, he will begin another long trip: paying off, over 10 years, a six-figure accumulation of loans.

Mr. Gibbs, 22, is hardly without resources. He is ambitious and smart, having made Phi Beta Kappa while majoring in international studies and German. And he has landed a job on Wall Street, at Smith Barney, where he will be paid a salary in the mid-$30,000 range, plus the potential for bonuses, to help evaluate the performance of the firm's divisions. He plans to begin work on July 7.

But given the size of his debt and the cost of living in New York City, Mr. Gibbs will probably find that his first postgraduate lesson in money is that a dollar stretches only so far.

Mr. Gibbs has a strong work ethic that goes as far back as his junior high school years in Mission Viejo, Calif., when he delivered newspapers, sold magazine subscriptions and worked in a pet store.

Even at a young age, he worked hard to make himself attractive to employers. To land the pet store job, ''I learned all there was to know about saltwater fish,'' said Mr. Gibbs, a trim man, 5 feet 11 inches tall, who was a competitive weight lifter in high school and who works out five times a week.

At Johns Hopkins this year, he held three jobs. For 20 hours a week, he has overseen phone callers raising funds at the school's Office of Annual Giving. During winter break, he worked full time at the Chiron Vision Corporation, a medical device manufacturer. And on Thursdays and Fridays, he traveled to Washington, where he served as an intern in the office of Senator Max Cleland, a Democrat from Georgia.

Mr. Gibbs is a practiced penny pincher, too, a regular clipper of grocery coupons, although he is not austere.

''Sunday is mandatory TV night,'' he said. '' 'The Simpsons,' 'King of the Hill,' 'The X-Files.' Can't miss 'The X-Files'!''

But he has to go to a friend's room to watch because, to save money, he has gone without a stereo or television.

MR. GIBBS is a young man in a hurry. With his new job in hand, he is aiming not only to reduce his loans fast -- ''I just don't like the idea of being in debt,'' he said -- but also to start contributing to the Smith Barney 401(k) retirement plan, in which employees can place their tax-deferred investments in eight Smith Barney funds.

But given Mr. Gibbs's high debts, his high hopes may need to be tempered. The debts include $102,000 in student loans and a $7,700 balance on his credit cards, which he depended on when he studied in Germany during his junior year. His checking account contains just $600; his savings account, $75.

Indeed, when The New York Times asked Deborah Voso, president of her own financial planning company, Voso Associates in Frederick, Md., to examine Mr. Gibbs's finances, her advice to the ambitious senior was to go slowly. A look at his income and projected expenses in New York shows why.

At his new job, Mr. Gibbs will have take-home pay of about $2,100 a month, she said.

First, she advised him to enroll in Smith Barney's least expensive medical plan, costing $36 a month. ''Young people don't use medical services that much,'' she said. But because he wears contact lenses, she suggested he pay an added $5 a month for vision care -- for a total of $41 monthly on health.

She also suggested disability insurance, at $17 a month. ''If the 'money machine' breaks down, you still have income coming in,'' she said. ''And you have to wait a year for Social Security disability.''

Ms. Voso recommended against the company's elective life insurance policy, however. ''You are not married, so who do you need to take care of?'' she asked.

After deductions are made for health care and disability insurance, Mr. Gibbs's monthly take-home pay shrinks to $2,042.

Then come the big bills.

Using Mr. Gibbs's estimates, Ms. Voso allotted $600 a month for housing, including utilities. ''Obviously, in New York City you will need one or more roommates for this to be possible,'' she wrote in her analysis.

She also tallied up his estimates of $200 a month for food, $100 for transportation, $100 for entertainment, $50 for clothing and $200 for personal care, which includes haircuts, health club membership and laundry and dry cleaning. For telephone expenses, Mr. Gibbs assumed a lean $40 a month.

Even these conservative figures would leave him with just $752 a month, and that is before the payments required on his credit-card balance and student loans.

Mr. Gibbs faces minimum monthly payments of $128 on his Mastercard, on which he pays 5.9 percent interest, and $27 on his Visa card, on which he pays 6.9 percent. For nearly two years, he has maintained those introductory interest rates by negotiating extensions with the card issuers rather than transferring his balance to another card company. Still, credit cards will claim at least $155 of his monthly income.

The student loans, which carry an 8.72 percent interest rate, put a serious crimp in Mr. Gibbs's hopes to balance his budget by himself. The loans call for a $1,400 monthly payment, but he will have only $597 left out of his Smith Barney paycheck. That means he will be $803 in the red each month.

Fortunately, Mr. Gibbs has a chance to earn bonuses at his job, and his parents have offered to help with the college payments. He is balking at asking them for as much as he needs to stay out of the red, but Ms. Voso, a mother of two grown children herself, urged him to do so. The numbers may not work any other way.

Besides, despite the tightness of the projected budget, Ms. Voso suggested that Mr. Gibbs save $50 a month for emergencies. ''Setting aside cash for three months of expenses is crucial not only for emergencies but because it establishes a habit of savings,'' Ms. Voso said. ''If you wait until you are debt free to begin saving, the saving never happens.''

OVER all, while she admires his can-do spirit, Ms. Voso told Mr. Gibbs to rein in his expectations. Based on his own estimated expenses, and even with a parental contribution or a bonus equal to, say, $600 a month, he would still take on $253 in monthly debt, or $3,036 annually, assuming he makes the $50 monthly deposit into an emergency fund. Worse, Ms. Voso thinks his estimates were too low.

Thus, he will have to make some hard choices, she said.

For example, she wrote, ''With a deficit budget, it is unrealistic to think you will be able to build an emergency fund and contribute to the 401(k).'' Her choice? While stressing the value and tax advantages of a 401(k), ''We feel the emergency fund is the more immediate priority,'' she wrote.

Mr. Gibbs wondered if he could somehow tighten his belt yet another notch to do both, since, he said, he didn't have ''any goal like a car or a condo'' to which he needs to dedicate money.

Indeed, he has already found a roommate to share expenses, he said, and he plans to look for an apartment in Brooklyn rather than in pricey Manhattan. He also hopes to cadge some furniture, appliances and pots and pans from an older sister who is getting married. And he is willing to hold back on purchases he has long anticipated.

"I would like to get a stereo and a TV, but I would rather pay off my loans," he said. "The only thing I can't give up is eating."

But when Mr. Gibbs toyed with the notion of trimming his monthly entertainment budget from $100 to $50, Ms. Voso was again the voice of caution. "That's not a lot of beer money," she warned. "You are going to have to be the king of frugality."

But she did have some tips for Mr. Gibbs on day-to-day money management. "Credit cards are for emergencies only," she said. "A balance on a credit card is proof that you are spending more than you are earning."

She also opposes the indiscriminate use of automated teller machine cards. "People take out money, lose track, and when it's time to pay bills the money isn't there," she said. She recommended taking out a week's worth of spending money in cash, and when that is gone, no more spending.

She said she wanted Mr. Gibbs to understand how limited his means already were, but she also talked about another way out. "The formula is simple," she said. "If you can't spend less, you have to make more."

Mr. Gibbs, who is at the start of his career, will probably, over time, do just that. The thought gives him great relief.

"There is an end to it," he said. "I just can't see it yet."
