

FINANCIAL/DEBT MANAGEMENT PRESENTATION

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FINANCIAL/DEBT MANAGEMENT

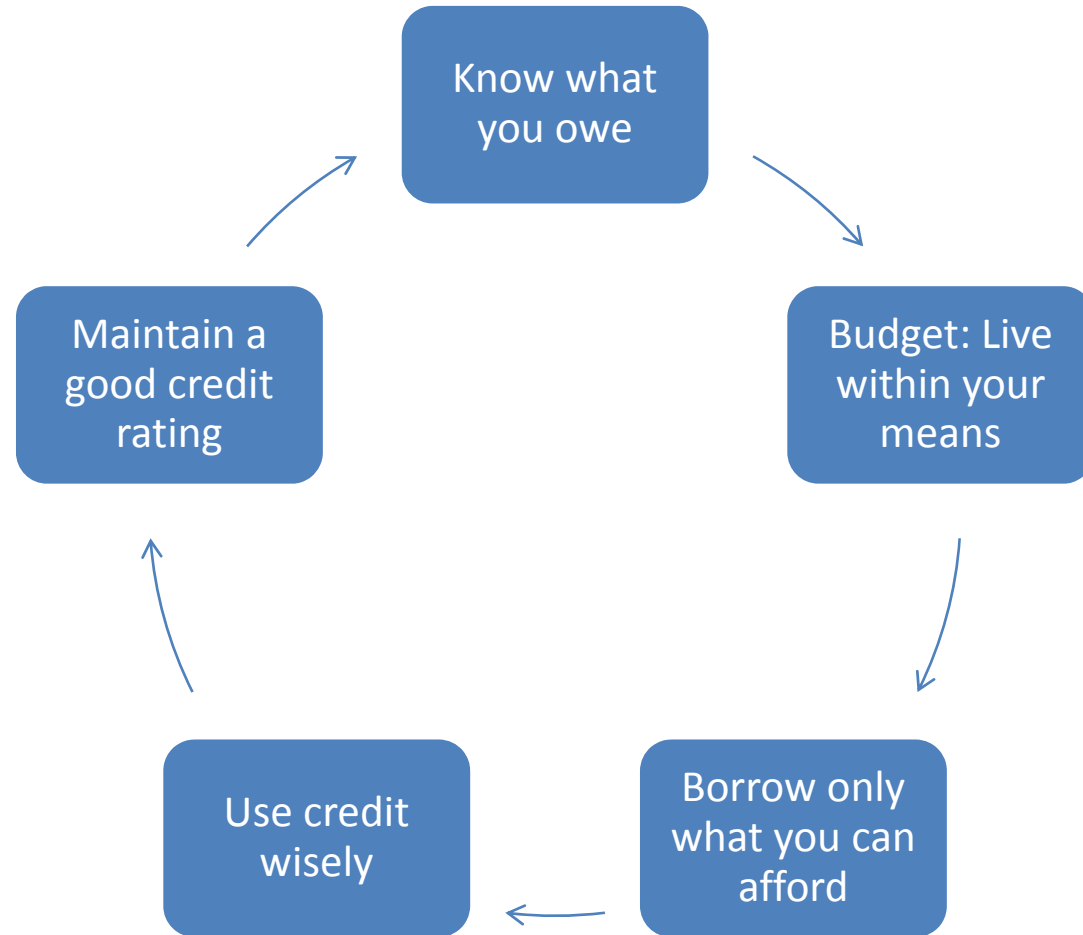
- Benefits of a College Education
- Costs of a College Education
- Budgeting and Planning Your Debt
- What is a Credit Score /Why Have a Good Credit History?
- Identity Theft
- Advantages/Disadvantages of Credit Cards
- Avoiding Trouble & Financial Warning Signs
- Resources for Debt Management Strategies



Benefits of a College Education

- Higher average annual income.
- Job opportunities
- Promotions and raises
- Increased value to a company
- Knowledge in many subjects
- Communication and reasoning skills
- Healthier outlook on life
- Personal satisfaction
- Networking, meeting people, having fun

Rules for Financial and Debt Management



Know What You Owe

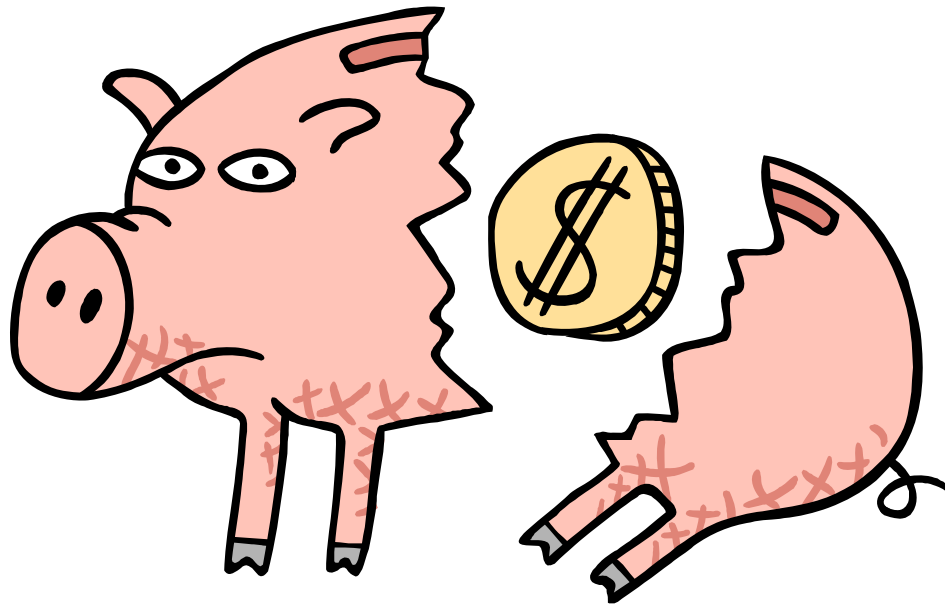
Tuition, Fees, Laptop	\$7,500
Room and Board	\$6,720
Books and Supplies	\$1,160
Personal	\$2,050
Transportation	\$620
Loan Fees	\$120
Credit Card Balance	\$0
Car Loan/ Insurance	\$0
Total	\$18,170

9 Month MN Resident Budget

- Get a clear picture of what you owe.

Budget: Live within your means!

- Create and stick with a budget.
- Don't spend more than you can afford.



Benefits of a budget

- Know how much it takes to pay for your essential expenses.
- Know if you can afford any optional items.
- Be ready for unexpected expenses.
- Be able to live within your means.

Example Fall Semester Budget

Expenses

Tuition, Fees, Laptop	\$3,750
Room and Board	\$3,360
Books and Supplies	\$580
Personal	\$1,025
Transportation	\$310
Loan Fees	\$60
Credit Card Balance	\$0
<u>Car Loan/Insurance</u>	<u>\$0</u>
Total	\$9,085

Income

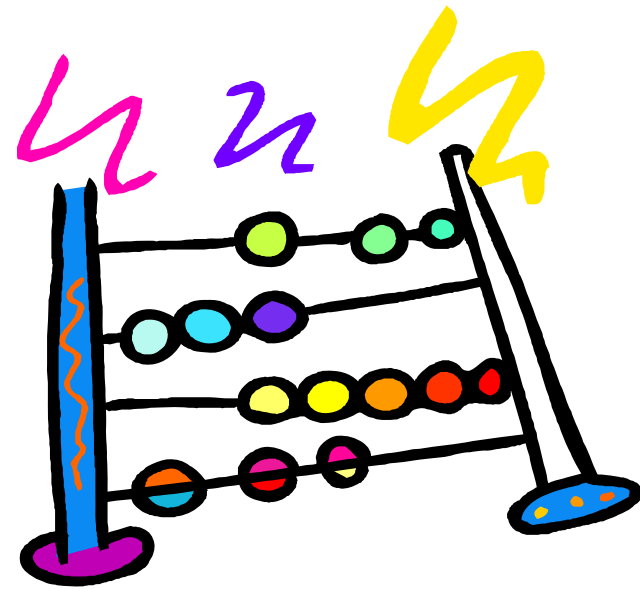
Savings	\$2,500
Job	\$700
Work Study	\$1100
Mom and Dad	\$1000
Scholarships	\$500
Grants	\$1535
<u>Student Loans</u>	<u>\$1750</u>
Total	\$9,085

Tips On Saving Money

- Banded Tuition Rate
- If you have a meal plan, use it.
- Share living expenses with roommates.
- Use e-mail rather than a cell phone.
- Do you really need your car?
- Apply for scholarships.
www.supercollege.com, www.finaid.org, or
www.scholarships.com

Borrow only what you can afford.

There is an easy calculation that can answer what you can afford: your Debt-to-Income ratio.



Debt-to-Income Ratio

- Divide your monthly minimum debt payments, by your monthly gross income.
- Some debts don't have a fixed payment, like credit cards. You can estimate the payment by taking 4% of the total owed.

Your Debt-to-Income Ratio

Income

Gross Salary	\$ 360
Investment Income	\$0
Other	\$0
Total Income	\$360

Monthly Payment on Debt

Total of ALL Student Loans	\$0
Car Loan	\$150
Credit Card	\$50
Other Installment Loans	\$0
Total Monthly Debt	\$200

Debt-to-Income Ratio

$$\$200/\$360 = 55\%$$

Total Monthly Debt divided by Total Income

What is an acceptable ratio?

General guideline for non-housing debt-to-income ratios:

10% or Less	Excellent
11% to 20%	Acceptable
21% to 35%	Overextended
36% or More	Danger!

Life Scenario

- 28 years old insurance agent.
- monthly gross salary: \$3,500 (\$42,000 annually)
- \$345/month student loans(\$30,000 borrowed)
- \$380/month car loan (\$19,000 car)
- \$120/month credit cards. (\$3000 debt)
- Total monthly payments on debt: \$845.
- 845 divided by 3,500
- Debt-to-Income ratio: 24.1% (Overextended)

Sample Starting Salaries

How Much Should I Borrow?

- Liberal Arts \$29,060/year
- Should not borrow more than **\$16,835**

- Chemical Engineering \$53,659/year
- Should not borrow more than **\$31,085**

- **Note: These calculations are based on the financial aid industry recommendation that student loan debt not exceed 8 percent of your gross earnings. The calculations do not take into consideration a high amount of credit card or other debt. It is based on a 10-year repayment plan.**

- <http://www.mappingyourfuture.org/apps/debtwizard/>

Use Credit Wisely

- **Good debt:** Leaves you with an asset that is worth more than the loan.
- **Bad debt:** a result of buying things that you cannot afford.



What is A Credit Report?

- Credit bureaus compile information about consumers for financial institutions. A credit report collects information on credit.



Get Your FREE Credit Report Today!

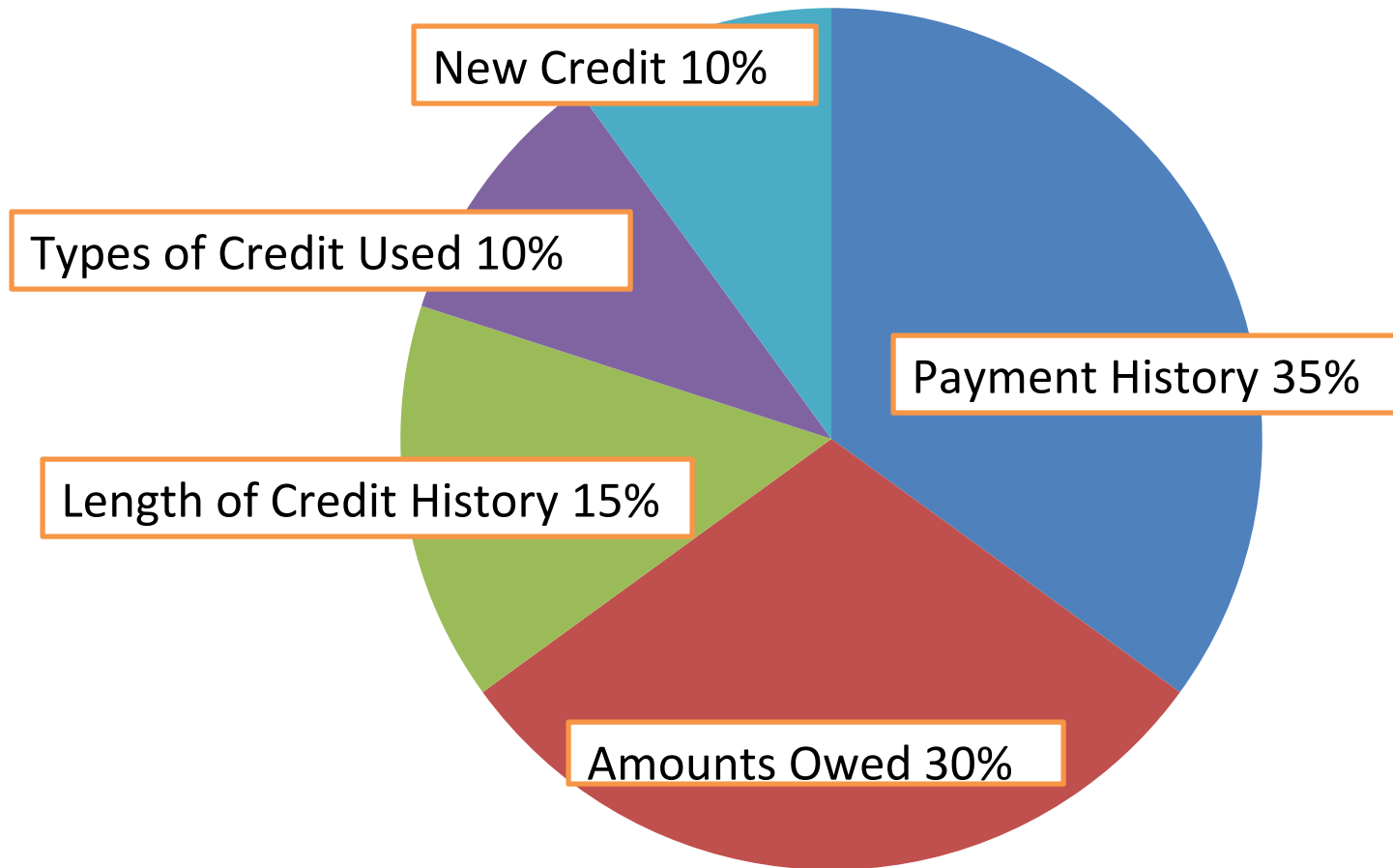
- Verify your credit report is accurate.
- See who has been looking at your credit report.
- Protect yourself from credit fraud and identity theft.

No Risk **No Obligation**

- According to reports as many as 1 in 4 credit reports are inaccurate.
- According to the FTC, identity theft is the FASTEST rising white collar crime in America

The advertisement features a man in a suit sitting at a desk on the left. The background is white with orange and blue accents. The text is in orange and blue. At the bottom, there is a blue banner with white text.

What Makes Up Your Credit Score



Payment History

- **35% of score.**
- Making on time payments is the most important thing you can do to build and maintain a high credit score.
- Looks at different types of payments.
- Details any missed or late payments.

Amounts Owed

- **30% of score.**
- Total of all amounts you owe for all accounts.
- What type of payment it is.
- Number of accounts that have balances
- How much of your total credit you have available to use.

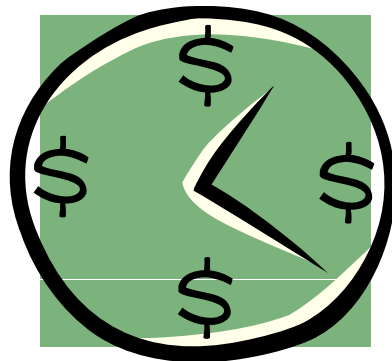
Tip

- Close to your credit limit? Companies may think you'll have trouble making payments.
- Use no more than 30%-35% of your available credit limit.



Length of Credit History

- **15% of score.**
- The longer your credit history the higher your credit score.
- If you have a short credit history, companies do not know if you will be a good credit risk.



New Credit

- **10% of score.**
- A lot of new accounts in a short time assumes that you are overextend.
- Every new account you open automatically lowers the average age of your accounts.
- Shopping around for a loan? You have a 45 day window on credit inquires before your score is significantly affected.

Types of Credit Used

- **10% of score.**
- A mix of different types of credit accounts, revolving and installment, shows that you are able to handle multiple lines of credit.



Why Is It Important to Have a Good (High) Credit Score?

Customer 1

- \$10,000 car loan for 5 years
 - **Low score (550)**
 - 13.5% interest rate**
 - \$13,806.00 total for car
- **Based on bank rate of 7.5%

\$200,000 home loan for 30 years

- 12.0% interest**
- \$740,602.80 total for home

**Based on bank rate of 6.0%

Customer 2

- \$10,000 car loan for 5 years
 - **High score (750)**
 - 7.15% interest rate**
 - \$11,923.20 total for car
- **Based on bank rate of 7.5%

\$200,000 home loan for 30 years

- 5.65 % interest**
- \$415,609.20 total for home

**Based on bank rate of 6.0%

Identity Theft

- What is It?

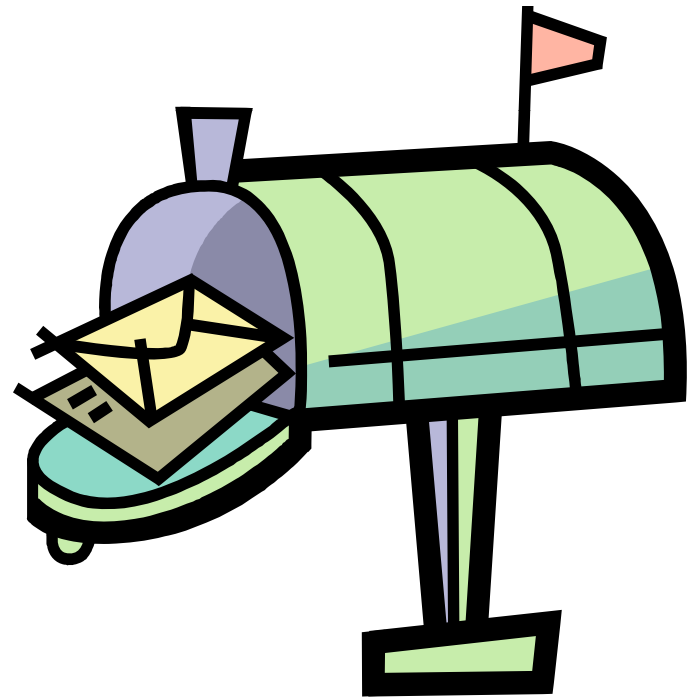
The use of your personal information (name, social security number, credit card number, etc.) without your permission.



Identity Theft

How Is My Identity Stolen?

- Stealing
- Dumpster Diving
- Phone Calls
- Emails
- Skimming
- Changing your address



Identity Theft

How Can I Find Out if My Identity Has Been Stolen?

- Check bank statements
- Check credit reports



Identity Theft

What Should I Do If My Identity Is Stolen?

- Notify your creditors
- Have your picture and finger prints taken by the local police department
- File a police report
- Pull your credit report
- Put a “black flag” for identity theft on your credit report

True Stories

Male, looking for job for years with no luck – if he ever did get hired, he was fired within months. He ended up filing for bankruptcy, lost his apartment and became homeless.

5 years prior his wallet was stolen with \$4 cash, driver's license, social security card and military ID. He finally found out that his identity had been stolen. The thief had given the victim's information when he was arrested for shoplifting, arson and theft.

The victim's profile was in databases that employers use to do background checks.

Can happen to anyone – identity theft of children

Credit Cards

College students are targeted because of their potential for future earnings – you don't need a job or any income to get one so they are very easy to get.



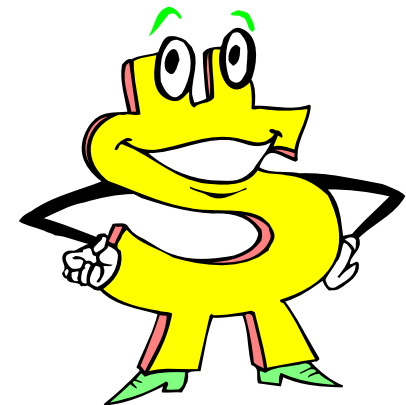
What to Watch For:

- Annual Fee
- Annual Percentage Rate
- Grace Period
- Balance Calculation Method
- Other Fees (late, over limit, cash advance)



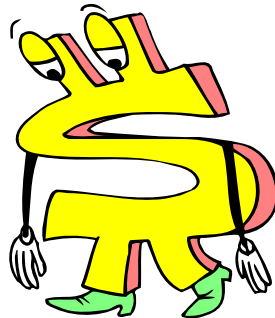
Advantages of a Credit Card

- Build positive credit history
- Use in emergency situations (travel, medical)
- Pay for purchases over time
- Convenience – no need to carry cash
- Can buy online, make reservations, etc.
- Benefits (frequent flyer miles)
- Learn financial responsibility



Disadvantages of a Credit Card

- Financial inexperience
- Easy to use – immediate cash availability
- Excessive debt accumulation
- High interest rates
- Do not have to pay it off every month
- Can apply for more than one card
- Hidden costs (late payment fees, cash advance fees)



Sample Credit Card Debt

- Credit card balance \$2,500
- Interest Rate 18%
- Monthly Payment \$50.00

- It will take 94 months (7 years, 8 months) to pay off your debt – your interest will be \$2,155.59.
- If you made only the minimum payment each month, it would take 415 months (34 years, 6 months) to pay off and you would pay \$6,430.93 in interest.

Sample Credit Card Debt

- Credit Card Balance \$2,500
- Interest Rate 18%
- Monthly Payment \$100

- It will take 32 months (2 years, 7 months) to pay off your balance and you will pay \$656.98 in interest.

- <http://www.bankrate.com/brm/calc/creditcardpay.asp>

Warning Signs of Financial Trouble

- You can only pay the minimum amount due on your credit card
- You have to borrow to make payments on existing loans
- You have to work extra to cover basic expenses
- You max out your credit card limit
- Creditors calling

Resources for Debt Management Strategies

- www.credithealthy.com
free online credit educational services – geared specifically for college students to proactively keep you credit healthy.
- www.mappingyourfuture.org
Financial fitness tools
- <http://www.financialplan.project.mnscu.edu/>
Start working on your personal finance plan

Additional Resources

Request a free copy of each of your three credit reports at www.annualcreditreport.com

- TransUnion
- Experian
- Equifax

Want to be a Millionaire?

- Age 26
- Save \$200/month
- In 4 years you will have \$10,000
- Expected rate of return = 2%

http://www.youngmoney.com/calculators/savings_calculators/savings_goals_calculator

Here's How!

- Take the \$10,000 and invest it
- Add \$400/month (savings, retirement accounts, and investments)
- You could make \$1,000,000 by age 65!
- Expected rate of return = 8%

http://www.youngmoney.com/calculators/savings_calculators/millionaire_calculator