FINANCIAL/DEBT MANAGEMENT PRESENTATION
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**
- **Maintain a good credit rating**
- **Budget: Live within your means**
- **Use credit wisely**
- **Borrow only what you can afford**
Know What You Owe

9 Month MN Resident Budget

- Get a clear picture of what you owe.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition, Fees, Laptop</td>
<td>$7,500</td>
</tr>
<tr>
<td>Room and Board</td>
<td>$6,720</td>
</tr>
<tr>
<td>Books and Supplies</td>
<td>$1,160</td>
</tr>
<tr>
<td>Personal</td>
<td>$2,050</td>
</tr>
<tr>
<td>Transportation</td>
<td>$620</td>
</tr>
<tr>
<td>Loan Fees</td>
<td>$120</td>
</tr>
<tr>
<td>Credit Card Balance</td>
<td>$0</td>
</tr>
<tr>
<td>Car Loan/Insurance</td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>$18,170</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition, Fees, Laptop</td>
<td>Savings</td>
</tr>
<tr>
<td>Room and Board</td>
<td>Job</td>
</tr>
<tr>
<td>Books and Supplies</td>
<td>Work Study</td>
</tr>
<tr>
<td>Personal</td>
<td>Mom and Dad</td>
</tr>
<tr>
<td>Transportation</td>
<td>Scholarships</td>
</tr>
<tr>
<td>Loan Fees</td>
<td>Grants</td>
</tr>
<tr>
<td>Credit Card Balance $0</td>
<td>Student Loans $1750</td>
</tr>
<tr>
<td>Car Loan/Insurance $0</td>
<td>Total $9,085</td>
</tr>
<tr>
<td><strong>Total</strong> $9,085</td>
<td><strong>Total</strong> $9,085</td>
</tr>
</tbody>
</table>
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.
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:

<table>
<thead>
<tr>
<th>Percentage Range</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>10% or Less</td>
<td>Excellent</td>
</tr>
<tr>
<td>11% to 20%</td>
<td>Acceptable</td>
</tr>
<tr>
<td>21% to 35%</td>
<td>Overextended</td>
</tr>
<tr>
<td>36% or More</td>
<td>Danger!</td>
</tr>
</tbody>
</table>
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

- Accounting $43,050
- Business Administration $38,357
- Chemical Engineering $53,659
- Civil Engineering $43,159
- Computer Science $51,042
- Economics/Finance $40,719
- Electrical Engineering $51,113
- Elementary/Teacher Education $30,364
- Information Sciences $43,741
- Liberal Arts $29,060
- Marketing $37,519
- Nursing $38,788
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.

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.
What Makes Up Your Credit Score

- Payment History 35%
- Amounts Owed 30%
- Length of Credit History 15%
- Types of Credit Used 10%
- New Credit 10%
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?

<table>
<thead>
<tr>
<th>Customer 1</th>
<th>Customer 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• $10,000 car loan for 5 years</td>
<td>• $10,000 car loan for 5 years</td>
</tr>
<tr>
<td>• Low score (550)</td>
<td>• High score (750)</td>
</tr>
<tr>
<td>– 13.5% interest rate**</td>
<td>– 7.15% interest rate**</td>
</tr>
<tr>
<td>– $13,806.00 total for car</td>
<td>– $11,923.20 total for car</td>
</tr>
<tr>
<td>**Based on bank rate of 7.5%</td>
<td>**Based on bank rate of 7.5%</td>
</tr>
<tr>
<td>$200,000 home loan for 30 years</td>
<td>$200,000 home loan for 30 years</td>
</tr>
<tr>
<td>- 12.0% interest**</td>
<td>- 5.65 % interest**</td>
</tr>
<tr>
<td>- $740,602.80 total for home</td>
<td>- $415,609.20 total for home</td>
</tr>
<tr>
<td>**Based on bank rate of 6.0%</td>
<td>**Based on bank rate of 6.0%</td>
</tr>
</tbody>
</table>
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 fingerprints 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
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.

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%