Debt Management
Budgeting 101

The first step is to know how much money is coming in so you know how much money you can spend.
Taxable Marital Status: Single
Exemptions/Allowances:
  Federal: 0
  State: 0

Social Security Number: 555-22-8888

### Earnings

<table>
<thead>
<tr>
<th></th>
<th>rate</th>
<th>hours</th>
<th>this period</th>
<th>year to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular</td>
<td>14.42</td>
<td>80</td>
<td>$1,153.85</td>
<td></td>
</tr>
</tbody>
</table>

### Deductions Statutory

<table>
<thead>
<tr>
<th>Deductions</th>
<th>this period</th>
<th>year to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Income Tax</td>
<td>-$107.26</td>
<td>$2,498.15</td>
</tr>
<tr>
<td>Social Security Tax</td>
<td>-$69.71</td>
<td>$1,484.33</td>
</tr>
<tr>
<td>Medicare tax</td>
<td>-$16.30</td>
<td>$347.14</td>
</tr>
<tr>
<td>MA State Income Tax</td>
<td>-$42.13</td>
<td>$865.94</td>
</tr>
</tbody>
</table>

### Other

<table>
<thead>
<tr>
<th>Other</th>
<th>this period</th>
<th>total to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>401K</td>
<td>-$115.38*</td>
<td>$2,452.20</td>
</tr>
<tr>
<td>P/T Dental Ins.</td>
<td>-$2.74*</td>
<td>$54.63</td>
</tr>
<tr>
<td>P/T Medical Ins.</td>
<td>-$27.58*</td>
<td>$547.84</td>
</tr>
<tr>
<td>Net Pay</td>
<td>$772.75</td>
<td></td>
</tr>
</tbody>
</table>

*Excluded from federal taxable wages

Your federal taxable wages this period are $1,006.15
Budgeting Basics:

Determine wants vs needs

Determine your short term and long term goals

Do the math

Are you tough enough to make the decisions that will get you where you want to be?
Credit and Commercialism

- Makes you feel inadequate
- Answer is spend money whenever you need to resolve a problem or meet a need
- The “have it now, pay later” lifestyle is prevalent
What is Credit?

- It is a loan, allowing you to receive goods and services now and pay for them later.
- It is an agreement that the money borrowed will be paid back.
- It is a debt, it is **NOT** income.
- It comes with fees; interest and other charges.
Build your Credit Record

◆ Often called “your second resume.”

◆ Information stays on your credit report for seven years.

◆ Your credit rating is your reputation. Employers, insurers, creditors, and leasing agents check your credit rating. It can affect job prospects, ability to obtain loans at lower interest rates, ability to buy a house or other large items, and ability to rent an apartment.

◆ Your credit record is used for determining insurance premiums, etc.
What is my FICO score?

Like your GPA the higher your FICO score the better

◆ FICO scores range from 300-850

◆ If your score is 680, Congratulations! You’re a prime borrower

◆ If your score is below 680 you’ll be stuck with “sub-prime” rates and will pay more for your loan

◆ If your score is below 550, just forget it

◆ A good FICO score of 750+ can mean your interest rate on a home loan will be 4 percentage points lower than somebody with a 500 score. This can mean over $200,000 in saved interest on a house.
Getting a good score

♦ The longer you have a particular credit card the better (it takes time to develop a credit history)

♦ Pay your bills on time

♦ Keep your account balances below 50% of your available credit

♦ Be careful about co-signing

♦ Avoid excessive inquiries
Use of Family Resources

◆ Keep communication lines open

◆ Treat your family with more respect than creditors because they may be the last source of security, financial and moral support
Credit Cards: The Basics

Fees, fees, and more fees

◆ Interest rate fees--what you pay for using the $$ usually 17% - 21% for students (after intro rate)

◆ Annual fee for just having the credit card

◆ Over the limit fees, charged whenever you exceed your credit limit

◆ Late payment fees

◆ Transaction fees

◆ Other miscellaneous fees

read the fine print!!!
Plastic Money: The Basics

Debit Cards

◆ allow access to checking account via ATMs and point of sale (POS) terminals
◆ amount is deducted from checking account
◆ not a charge card, must have the funds available

“Smart Cards”

◆ these cards store personal information
◆ may be “loaded” with a certain dollar value that can then be spent at POS terminals
Plastic Money: The Basics

Charge Cards
◆ must be paid in full every month (AMEX)
◆ provides convenience of not having to pay for purchases with cash, but balance may not be carried over month-to-month

Credit Cards
◆ operate on a credit limit and revolving basis
◆ if not paid-in-full within grace period, interest is charged on the remaining balance
Credit Cards:

Some disadvantages are:

- college students are more likely than other types of credit card users to run up debts they cannot pay
- college students (with limited or no credit history and income) are charged higher interest rates
Table 1: Minimum Repayment Schedule on a $2,000 Credit Card Loan at 19 Percent

<table>
<thead>
<tr>
<th>Monthly minimum payment amount</th>
<th>Number of months to repay</th>
<th>Total interest payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>$40</td>
<td>100</td>
<td>$1,994</td>
</tr>
<tr>
<td>$50</td>
<td>64</td>
<td>$1,193</td>
</tr>
<tr>
<td>$75</td>
<td>35</td>
<td>$619</td>
</tr>
<tr>
<td>$100</td>
<td>25</td>
<td>$424</td>
</tr>
</tbody>
</table>

Source: Credit Card Minimum Payment Interest Calculator, Daniel C. Peterson, www.webwinder.com

Interest savings between lowest/highest payment = $1,570;
time saved = 75 months or 6.25 years!
Credit Cards:

Characteristics of high-risk use

- Average credit card balances over $1,000
- Owning four or more credit cards
- Carrying a balance each month
- Using credit cards to charge tuition or fees
Credit Card Don’ts

- Don’t get more than one
- Don’t use them for cash advances
- Don’t use them to pay for basics: rent, groceries, etc.
- Don’t charge more than you can pay off in a month
- Don’t let banks increase your credit limit
Credit Card Do’s

- Use a debit card vs a credit card
- Use a card with no annual fee and low interest rates
- Know all of your card’s hidden fees
- Always pay more than the minimum each month
- Pay on time, all the time
Good Vs Bad Debt

Good debt is debt that returns something of long term value such as a higher education or home.

Bad debt is often categorized as short-term “feel good” debt and may be unwise purchases that you can’t afford and don’t really need. Any bad debt over 15% of your annual income after taxes should set off an alarm.
Solutions

◆ Redefine the good life your own way.

◆ You have worked and studied hard to get into college and you deserve to be in control with financial peace of mind rather than buy with credit every pleasure, activity, or material thing desired, for now, anyway.

◆ Resist the pressure from your family, friends, and associates to live a life style that is beyond what you can currently afford.

◆ List your short-term financial obligations and goals for each month, for the year, and future 5 years.
Solutions

◆ Focus on paying on the balance with the highest interest rate.
◆ Develop a budget
◆ Live within your means
◆ Transfer credit card debt to a low interest card or a lower interest personal loan
◆ Lose the credit cards
◆ Use your savings
◆ Sell stuff you don’t need
◆ Consolidate your student loans
Avoid Bankruptcy

It does not discharge student loans, child support, secured debt, or income taxes

Goes on your record for 10 years

May hurt parent’s credit rating if co-signed

Can keep you from getting a mortgage for a house, credit at reasonable rates, a job, or from being promoted
Debt Warning Signs

- Living from paycheck to paycheck
- Making late, minimum, or skipping payments
- Having credit cards at or near your credit limit
- Arguing with family or friends over your spending habits
- Being unsure of how much you really owe
- Using cash advances to pay your bills
- Having your credit card declined
- Having increasingly more of your income paying for debts each month
You can run..........................

DEAR MR. GUIDRY: OUR RECORDS INDICATE THAT WE HAVE NOT RECEIVED A PAYMENT FOR YOUR STUDENT LOAN...
Student Credit Card Debt

If you have a problem - get help!

Consumer Credit Counseling Services (CCCS)

call 800.388.2227
to be connected to the office nearest you
Web Resources

National Foundation for Credit Counseling- http://www.nfcc.org/

NFCC Debt Advice- http://www.debt advice.org/


Bankrate- http://www.bankrate.com

College Is Possible- http://collegeispossible.org
The following individuals and organizations contributed to this presentation:

U.S. Department of Commerce, Bureau of the Census

Mapping Your Future

USA Funds Services

Dr. Flora Williams, Purdue University

Michele Colson, Debt Management Consultant

Jim Swisk, Michigan Guarantee Agency

Young Money

The Mint