

Money Matters, Credit Counts

Strategies for Borrowing and Spending Wisely in School



Planning Your Future Budget

How much will you have to repay?

2008 Physical Therapy	
Average student loan borrowing	\$111,000
Estimated capitalized interest	\$15,275
Estimated total debt at repayment	\$126,275
Estimated monthly loan payment	\$1,490
<u>Assumptions:</u>	Stafford Loan borrowing = \$ <ul style="list-style-type: none">• Repayment @ 6.8% for 10 years = \$/month Grad PLUS Loan borrowing = \$ <ul style="list-style-type: none">• Repayment @ 8.5% for 10 years = \$/month

Planning Your Future Budget

How much will you have to repay?

2008 Occupational Therapy	
Average student loan borrowing	\$143,800
Estimated capitalized interest	\$22,588
Estimated total debt at repayment	\$166,388
Estimated monthly loan payment	\$1,987
<u>Assumptions:</u>	Stafford Loan borrowing = \$ <ul style="list-style-type: none">• Repayment @ 6.8% for 10 years = \$/month Grad PLUS Loan borrowing = \$ <ul style="list-style-type: none">• Repayment @ 8.5% for 10 years = \$/month

Seven Strategies for Success

- **Borrow the minimum - only what you need**
- **Build Your Own Budget — “BYOB”**
- **Save on Spending — “SOS”**
- **Understand your loan terms and conditions**
- **Manage your loans responsibly**
- **Keep accurate financial records**
- **Develop and maintain good credit**

Your Educational Investment

You are making a very important INVESTMENT in yourself of ...

- **Time**
- **Money**

To make the most of this investment you should have a strategy for success!

Borrowing the Minimum Loan Amount Possible

- **Determine your borrowing needs by estimating your in-school budget**
- **Calculate your future budget - how far will your future paycheck go?**
- **Can you afford to repay your debt?**
- **If not, make adjustments to budgets and borrowing amounts**



Building Your Own Budget and Saving on Spending

Application Process

Federal Student Loans

- **Complete Free Application for Federal Student Aid (FAFSA)**
- **Complete other application materials required if applying for institutional funds**
- **Check with school and other sources for scholarships/grants**
- **Be aware of all application deadlines**

Cost of Attendance (COA)

Allowable Expenses

- **Tuition and fees**
- **Books and supplies**
- **Housing and food**
- **Transportation**
- **Miscellaneous personal expenses**

Expenses NOT Included in COA

- **Car payments**
- **Support of spouse and family**
- **Payments of current/prior credit card debt**
- **Periods of non-enrollment (e.g., summer)**
- **Relocation expenses**

Increases for Special Circumstances

Cost of Attendance (COA) may be increased in certain circumstances . . .

- **Child care expenses while attending class**
- **Child support (court-ordered)**
- **Essential medical expenses not covered by your health insurance**
- **Certain car repairs**

Budget Planning

Budget Planning Steps

- Identify your financial goals
- Quantify your resources
- Estimate your expenses
- Do the math– ***a surplus or deficit?***
- Determine borrowing needs if you have a deficit
- Evaluate impact of your planned borrowing
- Adjust as necessary

Budget Planning

What do you need to do?

- **Develop your own budget plan;**
make sure it's affordable
 - **In-school**
 - **Following graduation**
- **Follow your budget plan**
- **Minimize your spending so that you can minimize what you have to borrow**

Budget Planning

Use Tools

- **Use tools such as worksheets, spreadsheets and/or online calculators to help you in your budget planning**
- **For example, Access Group offers the following online interactive calculators at *AccessGroup.Org*:**
 - **“In-School Budget”**
 - **“Out-of-School Budget”**
 - **“Loan Repayment”**

Your In-School Budget

How much are you spending?

BUDGET CATEGORY	Cost of Attendance	Your Budget
Tuition and fees	\$27,716	\$
Books and supplies	\$2,143	\$
Housing <i>(rent, mortgage)</i>	\$13,500	\$
Utilities <i>(electricity, phone, etc.)</i>		\$
Food <i>(groceries, eating out, etc.)</i>		\$
Transportation		\$1,200
Clothing <i>(purchases, cleaning, etc.)</i>	\$2,280	\$
Entertainment		\$
Personal care <i>(haircuts, cosmetics, etc.)</i>		\$
Miscellaneous		\$
Loan fees <i>(origination, Fed Default Fee)</i>		\$750
TOTAL	\$47,589	\$

Beware When Budgeting

What if you ...

- Are helping to support others financially?
- Have credit card debt?
- Have dependents to support?
- Have higher than average living expenses?
- Have significant medical expenses to repay?
- Etc.

Planning Your Future Budget

How far will your future paycheck go?

Class of 2008	Occupational Therapy	Physical Therapy
Annual salary	\$50,000	\$60,000
Monthly salary	4,167	5,000
Net income	2,778	3,333
Loan payment	2,000	1,500
Other debt	200	200
Disposable income	\$578	\$1,633

Will you have enough money for your other expenses each month once you graduate?

Planning Your Future Budget

Monthly Living Expenses

Class of 2008	
Housing	700
Utilities	100
Food	250
Clothing	0
Transportation	300
Entertainment	0
Misc. personal	0
Retirement (10%)	400
Total	\$1,750
<i>Will you have enough money for your other expenses each month once you graduate?</i>	

Planning Your Future Budget

Monthly Balance Sheet

Class of 2008	Occupational Therapy	Physical Therapy
Disposable income	\$578	\$1,650
- Living expenses	\$1,350	\$1,350
SUBTOTAL	- \$772	\$300
-Retirement	\$0	\$400
Balance	- \$772	- \$100

Your budget must have a zero or positive balance; it cannot have a deficit in the long-term.

Planning Your Future Budget

Note what is missing!

Class of 2008	
Housing	
Utilities	
Food	
Clothing	???
Transportation	
Entertainment	???
Misc. personal	???
Retirement (10%)	
Total	???

Reducing Your Borrowing

In-school Strategies

Re-evaluate your in-school budget:

- Reduce your spending
- Increase your resources by working, etc.
- Apply for grants/scholarships
- Use cash, not credit cards
- Develop good financial habits

Ideas for Reducing Spending

- **Live with roommate(s)**
- **Take your own lunch; bring your own coffee, beverages, snacks, etc.**
- **Eat at cheap places when dining out**
- **Have only one phone—either cell or home phone**
- **Avoid excess phone features and services that add to the cost**
- **Have “free fun”**
- **Rent/share DVDs or go to matinees**
- **Dress for less-shop at discount stores if you need new clothes**
- **Clip & use coupons, but only on things you need**
- **Don't buy a new car; stick with the car you have, carpool, use public transit, ride a bike, walk**
- **Shop with a list and buy only what's on that list**
- **Beware of “impulse” shopping and buying for “convenience”**

Ideas for Reducing Spending Continued

- **Limit credit card use – credit spending on average 34% more**
- **Buy in bulk when grocery shopping**
- **Look for deals/coupons when dining out**
- **Buy new clothes at the end of the season**
- **Don't throw parties alone – have friends help out**
- **Drive an older car – insurance and taxes are lower**
- **Ask for generic medicines**
- **Scout out garage sales for housewares and furniture**
- **Don't buy bottled water**
- **Use your checkbook only for monthly bills**
- **Get a job where you get discounts on merchandise**
- **Get good grades – it can lower insurance rates**
- **Other ideas ? ? ?**

What is \$3/day worth?

	2-Yrs	3-Yrs	4-Yrs
Daily cost	\$3	\$3	\$3
Days per week	5	5	5
Total weekly cost	\$15	\$15	\$15
Number of weeks per year	52	52	52
Total yearly cost	\$780	\$780	\$780
Number of years in school	2	3	4
Total cost while in school	\$1,560	\$2,340	\$3,120
Annual interest rate	6.8%	6.8%	6.8%
Repayment period (months)	120	120	120
Est. monthly payment	\$20	\$31	\$42
TOTAL PAID	\$2,393	\$3,698	\$5,078
TOTAL INTEREST PAID	\$833	\$1,358	\$1,958

What is \$300/month worth?

Benefit of an Added Roommate

	2-Yrs	3-Yrs	4-Yrs
Monthly savings in your share of housing costs	\$300	\$300	\$300
Number of months per year	12	12	12
Total yearly savings	\$3,600	\$3,600	\$3,600
Number of years in school	2	3	4
Total cost while in school	\$7,200	\$10,800	\$14,400
Annual interest rate	6.8%	6.8%	6.8%
Repayment period (months)	120	120	120
Possible savings in monthly loan payment	\$92	\$142	\$195
TOTAL PAID	\$11,042	\$17,070	\$23,435
TOTAL INTEREST PAID	\$3,842	\$6,270	\$9,035

Federal Student Loan Repayment Plans (FFELP)

- **Standard (Fixed) Repayment**
- **Graduated Repayment**
- **Extended Repayment**
- **Income-Sensitive Repayment**
- **Income-Based Repayment** (*available July 1, 2009*)

You are allowed to change loan repayment plans

Standard Repayment

- **Requires the highest initial monthly payment**
- **Monthly payment is fixed – the same payment is due each month (*your monthly payment changes only if your loan has a variable interest rate*)**
- **Maximum repayment period is 10 years**
- **Results in lowest amount of total interest paid**

Graduated Repayment

- **Initial monthly payments cover only interest payments**
- **Payments increase over time**
- **Maximum repayment period is still 10 years**
- **Results in larger amount of total interest paid**
- **Lenders must offer at least one graduated repayment plan**

Extended Repayment

- **Fixed or graduated monthly loan payments over 25-years**
- **Results in a lower monthly payment than with the Standard Repayment Plan**
- **Available to borrowers with no outstanding balance on a FFELP loan made prior to 10/7/98**
- **Must have more than \$30,000 in FFELP debt**

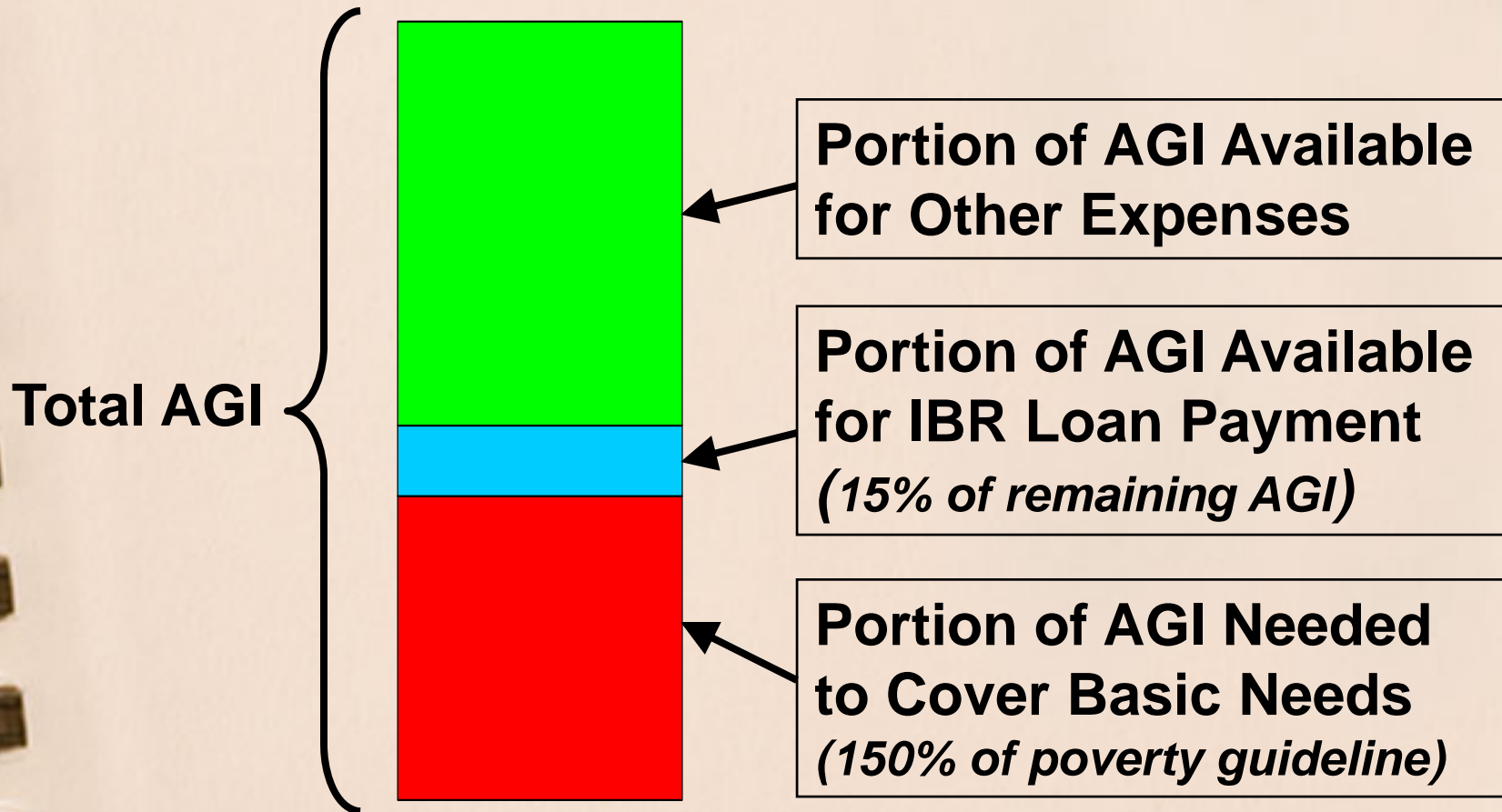
Income-Based Repayment (IBR)

Income-Based Repayment (IBR)

- **Effective date:**
 - **July 1, 2009**
- **Eligibility criteria:**
 - **Available for repayment of FFEL/Direct Stafford, Grad PLUS and Federal Consolidation Loans (FCL)**
 - **Cannot be used to repay Parent PLUS Loans**
 - **Cannot be used to repay FCL that included payoff of a Parent PLUS Loan**
 - **You must have “Partial Financial Hardship”**

NOTE: The Department of Education released regulations on 10/23/08 however there are still outstanding issues, i.e.. How to apply.

Portion of AGI Available for Loan Payment in IBR



Calculators are available at: [Finaid.Org/calculators](https://www.Finaid.Org/calculators) and [IBRinfo.org](https://www.IBRinfo.org)

Sample IBR Calculation Using 2008 Poverty Guideline- *\$40,000 AGI*

Eligible federal loan debt	\$60,000	\$100,000	\$150,000	
Estimated monthly payment (Standard plan @ 6.8% - 10 yrs)	\$690	\$1,151	\$1,726	[1]
Annual amount due ([1] × 12)	\$8,280	\$13,812	\$20,712	[2]
Household size	1			
Household AGI	\$40,000			[3]
Poverty line for household size	\$10,400			[4]
150% of poverty line (1.5 × [4])	\$15,600			[5]
AGI-150% of poverty line ([3] - [5])	\$24,400			[6]
15% of (AGI - 150%) value (0.15 × [6])	\$3,660			[7]
Partial Fin. Hardship: YES or NO YES, if [7] is less than [2] NO, if [7] is equal to/greater than [2]	YES	YES	YES	
IBR monthly payment ([7] ÷ 12)	\$305	\$305	\$305	
Maximum AGI permitted in this example to qualify for IBR	\$70,800	\$107,680	\$153,680	

IBR

Approx. Max. AGI Needed to Qualify for IBR at Specified Debt (2008 Poverty Guidelines)

Debt	AGI
\$5,000	\$20,203
\$10,000	\$24,806
\$15,000	\$29,410
\$20,000	\$34,013
\$25,000	\$38,616
\$30,000	\$43,219
\$35,000	\$47,822
\$40,000	\$52,425
\$45,000	\$57,028
\$50,000	\$61,632
\$55,000	\$66,235
\$60,000	\$70,838

Debt	AGI
\$65,000	\$75,441
\$70,000	\$80,044
\$75,000	\$84,648
\$80,000	\$89,251
\$85,000	\$93,854
\$90,000	\$98,457
\$95,000	\$103,061
\$100,000	\$107,664
\$105,000	\$112,267
\$110,000	\$116,870
\$115,000	\$121,473
\$120,000	\$126,077
\$125,000	\$130,680

Assumptions: - Interest rate = 6.8%

- Household size of 1 residing in 48 contiguous states

Beware of Negative Amortization -- $AGI = \$40,000$

Eligible federal loan debt	\$60,000	\$100,000	\$150,000
Estimated monthly payment (Standard plan @ 6.8% - 10 years)	\$690	\$1,151	\$1,726
Interest paid in 1 st month	\$340	\$567	\$850
Principal paid in 1 st month	\$350	\$584	\$876
Resulting principal balance	\$59,650	\$99,416	\$149,124
Comparison with IBR payment, if eligible			
IBR payment in 1 st month	\$305	\$305	\$305
Resulting principal balance	\$60,000	\$100,000	\$150,000
Unpaid interest after 1 st payment	\$35	\$262	\$545
Minimum AGI needed to eliminate negative amortization			
AGI needed with IBR to pay all accrued interest	\$42,800	\$60,960	\$83,600
Resulting IBR payment in 1 st month	\$340	\$567	\$850

IBR

Loan Cancellation After 25 Years

- Any outstanding eligible FFEL or Direct loan balance (other than PLUS) is cancelled after 25 years.
- To qualify, you must have been “economically challenged” during a portion of the 25 year period.
- You must meet at least one of the following requirements during the 25-year period:
 - Made monthly loan payments using IBR or Income Contingent Repayment (ICR)
 - Made monthly payments of not less than the monthly amount calculated using Standard 10-year Repayment when you first used IBR
 - Were in an Economic Hardship deferment
- Any loan amount that is cancelled may be taxable in the calendar year in which it is cancelled

Extended Repayment vs. IBR

AGI = \$40,000

Eligible Federal Loan Debt	\$60,000	\$100,000	\$150,000
Standard Repayment - 10 yrs <i>Fixed monthly payment @ 6.8%</i>	\$690	\$1,151	\$1,726
Extended Repayment - 25 yrs <i>Fixed monthly payment @ 6.8%</i>	\$416	\$694	\$1,041
IBR Repayment – up to 25 yrs <i>Fixed monthly payment @ 6.8%, AGI=\$40,000, Household size = 1</i>	\$305	\$305	\$305
<i>Difference in 1st payment between Extended Repayment and IBR</i>	\$111	\$389	\$736

IBR

Potential Pros

- Entitlement
- Lowest monthly payment
- Unpaid interest for paid up to 3 yrs on subsidized Stafford
- Loan cancellation after 25 yrs

Potential Cons

- Goes into effect 7/1/2009
- Potential for added costs
- If married might need separate tax returns
- Unpaid Interest can be capitalized by loan holder

Budget Planning

What should you do with your plan?

- **Follow your budget plan**
- **Track your expenses to see if you are adhering to your plan**
- **Review/revise your plan as needed if your circumstances change**

Budget Planning

What happens when you exceed your budget?

You ...

- **Probably rely on credit**
- **Increase your long-term debt**
- **Risk your future ability to borrow**
- **Reduce the chances of achieving your future financial goals**
- **Lose financial flexibility and jeopardize your future financial opportunities**

Developing and Maintaining Good Credit



Why is good credit important to you?

You may need good credit to:

- **Qualify for some education loan programs**
- **Get the job you want**
- **Achieve your financial goals**

Developing and Maintaining Good Credit

Some Useful Tips:

- **Pay all your bills on time**
- **Notify creditors of changes in address, etc .**
- **Limit use of credit cards for credit, and when used, pay credit card bill in full each month**
- **Minimize debt – *especially from credit cards***
- **Review credit reports annually for accuracy**

Obtaining Your Credit Report

Go to *AnnualCreditReport.com* for a free copy of your report every 12 months from each of the three national credit bureaus

Credit reports also are available online (usually for a fee) from the three national credit bureaus at:

- ***equifax.com***
- ***experian.com***
- ***transunion.com***

You can achieve your goals
and manage your debt if you ...

- **Borrow the *minimum* amount possible**
- **Spend your *future income* carefully**
- **Develop a *strategy for success***

We're here to help you!

Access Group

800-282-1550

AccessGroup.Org

