



Debt Management for Undergraduates

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Debt Management Educational Program

There is no question: a college education is a smart investment. College graduates earn substantially more – by some estimates \$1 million more – over the course of their careers, and have fewer periods of unemployment than their high school graduate counterparts.

There is also no question that as the cost of higher education continues to rise, it is more important than ever for college students and their families to make smart choices about paying for college, budgeting, using credit, borrowing, and managing their post-college debt.

The Better Business Bureau[®], Inc. Serving Eastern Massachusetts, Maine & Vermont has teamed up with the **Massachusetts Educational Financing Authority (MEFA)** and **Sallie Mae[®]** to increase public awareness of smart money management and dealing with debt.

The “Debt Management for Undergraduates” campaign emphasizes how to budget and borrow wisely, and provides crucial tools and resources for young people, their families, and educators.

Budget Realistically

Managing debt effectively isn't just something that happens when you graduate; the best debt management starts before you even walk on campus, by thinking about your finances and setting a smart budget.

When setting a budget, it's important to remember that there is more to college expenses than just tuition and housing. Everything from books to supplies to trips back home contributes to the overall cost of your education.

Start by requesting a list of direct expenses from your college or university. You can call your school's Financial Aid Office or look on the school web site to get those figures. Once you know what those expenses are, it may help you to complete the following worksheet.

Tuition and fees \$_____

Housing \$_____

Meals \$_____

Books \$_____

Personal expenses (laundry, snacks, medical, etc.) \$_____

Transportation (travel home, T pass, bus pass, etc.) \$_____

Entertainment \$_____

Miscellaneous (fraternity or sorority fees, club/organization fees, special tools or equipment for a specific major, etc.) \$_____

Athletic fees \$_____

Cost of attendance for 1 year = \$_____

It is also important to look to the future when you think about your budget. When deciding how much to borrow or finance for college, be sure to consider the amount of money you expect to make at your first out-of-college job. Keep in mind that education loan repayment will start about six months after you leave school. Student loan companies should be able to give you an estimate of your expected monthly payment based on your loan balance. Keep education loan repayment in mind as you evaluate salary requirements.

If you are just entering college, repaying your loans may seem like a million years away, but always keep in mind that every dollar you do not borrow is one that does not need to be repaid.

Free money first

Nothing is cheaper than “free.” Your first step to managing your finances is to seek out funds that don’t have to be paid back, in the form of scholarships, grants, and other gift aid.

If you are still in high school, the guidance counselor’s office is a great place to start your hunt for free money. There, students and parents will find information about federal, state, and local programs. Many high schools have publications or computer programs that can be used for scholarship searches and for sources of other aid.

If the student has narrowed his selection to a few colleges, he should contact the Financial Aid Office at those institutions. A college financial aid counselor will have detailed and up-to-date information about federal and campus-based programs.

Students should investigate private sources of scholarships and grants in their community. Funds may be available based on achievement, religious affiliation, ethnicity, memberships, fraternal organizations, hobbies, special talents, or even where you work.

Contact local companies, unions, religious organizations, local foundations, and other community organizations to see what is available. It’s also advisable to do your own Web search for free money.

Warning: Beware of organizations that ask you to pay for a scholarship search.

One note of caution: Be wary of organizations that offer to locate or “guarantee” scholarships for a fee. Most of this information is widely available for free, so don’t get caught in a scam!



Fill out that FAFSA

Your second step on the “paying-for-college” path is to locate and apply for no- or low-cost funds. Fortunately, you don’t have far to look: The federal government offers Pell Grants to qualified students as well as Stafford and PLUS Loans to students and their parents at rates generally below market.

To find out if you qualify for federal grants or loans you must complete the Free Application for Federal Student Aid (FAFSA). This form may be completed and submitted online at www.fafsa.ed.gov.

Parents should help students fill out the FAFSA to make sure that it is completed in its entirety. If it is not filled out completely and correctly, it will be returned, and the student will likely be delayed in receiving aid to which he or she is entitled.

Submit the FAFSA directly to the processor designated on the form. Be sure to submit the FAFSA before the earliest application deadline of the colleges you are considering. High school seniors should think about submitting the FAFSA as early as January 1 in the winter before they graduate. You can submit the forms via snail-mail, but note that processing is faster and mistakes are fewer if the form is completed online.

Pell Grants are considered the foundation of federal student aid, to which aid from other federal and nonfederal sources might be added. Pell Grants are awarded based on financial need.

Not all students will qualify for a Pell Grant, and those that do qualify may not qualify for the maximum award. Whether you can get a Pell Grant—and how much you get—depends on a federal calculation that estimates what your family can pay, your cost of attendance, and other financial circumstances. As with all forms of federal aid, the best way to determine your eligibility for Pell is to submit a FAFSA.

Borrowing Wisely

Once you've exhausted all available grants, scholarships, and other sources of "free money," take full advantage of the federal Stafford and PLUS education loan programs, which guarantee competitive rates regardless of your financial situation or academic performance.

Federal Stafford Loans are made to undergraduate and graduate students attending college at least half-time at institutions participating in the federal financial aid system. For Stafford Loans first disbursed beginning July 1, 2006, the interest rate is fixed at 6.8 percent. Stafford Loans are very customer-friendly when compared with other loans types. Stafford offers flexible repayment options, including consolidation, no payments while you are enrolled at least half-time, no prepayment penalty, no credit check, and a six month post-graduation grace period.

However, there are limits to how much you can borrow through Stafford. For undergraduates, annual loan limits range from \$2,625 for freshmen (\$3,500 after July 1, 2007) to \$5,500 for juniors and seniors. You may not borrow more than \$23,000 total as an undergraduate.

Federal Parent PLUS Loans are available to parents who wish to help their child pay for college. With this loan, parents may borrow up to the full cost of a child's education, including tuition, room and board, books and supplies, transportation, and living allowances, less other financial aid received by the student.

A PLUS Loan is one-size-fits-all: most families will qualify and everyone gets the same low interest rate regardless of their credit history. The interest rate for PLUS loans first disbursed on or after July 1, 2006 is fixed at 8.5 percent. Congress recently opened the PLUS Loan program to graduate and professional students who wish to borrow on their own behalf.



General Principals for Borrowing

When borrowing for college, there are some general principles to follow:

- Borrow conservatively and only what is absolutely needed.
- Talk to your institution. Each school works a little differently, so know what forms to fill out and when. Be sure to tap all sources of free money before considering loans.
- Be organized and keep good records. Keep an electronic or paper file specifically for education loan information, and keep all loan documents, related correspondence (including records of telephone calls), and payment records.
- Read all mail and e-mail about your loans. Keep track of lender names, web addresses, and phone numbers.
- Choose lenders who are customer-service oriented. Shop around and select an established lender that offers top-quality loan servicing and borrower benefits. In some cases your financial relationship with the institution could last up to 30 years, so choosing your lender wisely is critical.
- Choose a lender you trust. If borrowing more than once, going with a lender you already have means the loans will all be together, simplifying repayment.
- Consider whether you would benefit from loan consolidation. By consolidating, you combine one or more existing education loans into a single loan. Loan consolidation lets you stretch your repayment period from the standard 10 years to up to 30 years, and rates remain low when compared to other loan types. The lower payment could help free up cash for other expenses.
- Maintain good credit. This is particularly important when applying for private loans – many lenders reward borrowers who have good credit records with better interest rates.

College on Credit?

Any examination of debt management for undergraduates would be incomplete without addressing the topic of credit cards. There was a time—not so many years ago—when college students with credit cards were the exception rather than the rule. But that is no longer the case.

According to a 2004 Nellie Mae study, 76 percent of all undergraduates in 2004 began the school year with credit cards. And as students progress through school, credit card usage swells. 91 percent of final-year students have a credit card, compared to 42 percent of freshmen, Nellie Mae found.

According to those findings, nearly one-quarter of undergraduates in 2004 began the school year without a credit card, so you may find you do not need one to get by. A debit card could meet your needs, and help you keep non-essential purchases in check.

Surprisingly, students are considered a good credit risk by most credit card companies, despite the fact that they often do not have jobs and are also borrowing student loans. Research has shown that student borrowers are valuable customers because they tend to stay loyal to their first card, continuing to make purchases for many years to come. So don't be surprised when you see an influx of opportunities to establish a credit account.

The best way to determine if you should get a credit card is to make an honest assessment of both your level of self-discipline and income. Students who use cash or debit cards to pay for their expenses are forced more directly to consider whether they can afford the purchase.

Remember that using a credit card for non-essential items—pizza, concert tickets—means you will pay interest on expenses that could be avoided in the first place. The fact is, if you do not have the means to pay for what you've charged, you shouldn't buy it.

If you opt for a card, a good rule of thumb is to only charge what you can afford to pay off completely each month to avoid hefty finance charges. According to FTC estimates, a \$2,000 charge paid on the minimum monthly balance at 18.5 percent interest will take 11 years to pay off, and will cost almost double the original amount. Paying off your cards each month will help you establish a healthy credit record.

Shop for the Best

You may already have a credit card, but if you don't, you can be sure there will be many opportunities to get one once you arrive on campus. Some credit companies set up tables in the common areas of college campuses to encourage students to sign up for credit cards. Often, they give away trinkets such as T-shirts, water bottles and coffee mugs in exchange for filling out an application. Sound easy? It is, but think twice before you do it.

If you need a credit card, don't be tempted by a prize at a campus kiosk or a store discount. Instead, shop for the best interest rates, benefits, and fees to fit your lifestyle. Ask trusted family and friends about their experiences with specific companies, and check out a company with the Better Business Bureau at www.bosbbb.org. Be sure you take advantage of the ability to set your own credit card limit. This will help you keep your credit card balance in check.



Be Credit-Savvy

Unlike repayment on a traditional loan, such as a student or car loan, credit cards do not allow you to spread the amount you owe over a fixed period. Instead, you are required to pay a monthly minimum, which is the smallest amount you can pay and still meet your cardholder agreement (the terms you agree to when signing up for the card).

The minimum payment is usually 2 percent of your outstanding balance. Unfortunately, by paying only the minimum each month instead of paying off your entire balance, your debt will continue to grow. Many credit card companies also charge late fees (usually 2 percent of the outstanding balance), and higher interest rates on cash advances.

You should also limit the number of cards in your wallet—more cards do not necessarily mean better credit. You can probably get by with one or two major-name credit cards at the most (one exclusively for secure online transactions, for example).

Think twice before opening store credit cards. Retailers will often offer a store discount to open a credit card. This might seem like a good deal, but watch out. Store cards often carry much higher interest rates than other types of cards—in some cases up to 20 percent or more! If you open a retail credit card be sure you have the funds available to pay off by the due date.

Be sure to keep a close eye on your charges, save your receipts, and check your account balances regularly, either by phone or online. Stay true to your budget and screen your statements carefully. Credit card numbers are relatively easy for criminals to steal and use, so if you spot a discrepancy or unauthorized charge, contact your creditor immediately.

Undergraduates will have to decide for themselves if they can handle the responsibility of a credit card, but parents can help in the decision-making process. According to a study by the U.S. Public Interest Research Group, of the 79 percent of surveyed students who use credit cards for multiple purposes, only 13 percent reported limiting credit card use to emergencies.

Finally, be sure to establish and maintain a positive credit history. AnnualCreditReport.com was created by the three national credit reporting companies, Equifax, Experian, and TransUnion. Under the Fair and Accurate Credit Transactions Act (FACT Act), consumers can request and obtain a free credit report once every 12 months from each of the three credit reporting companies at <http://www.annualcreditreport.com>.

To contact the Better Business Bureau visit:

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