Financial Literacy 101

Borrowing for Success

The Real World

Some students think they don't need to manage their money because they have so little. But one of the main dangers you'll face in college is not just spending money you *do* have, but spending money you *don't* – and finishing college with thousands of dollars in unnecessary debt.

Minimizing College Debt

Many students are graduating with more debt than necessary – in fact, the average credit card debt is now around $4,000 among new college grads. Here are some ways to keep your student debt down…

- *Budget Your Money* A budget is simply a spending plan based on your income and expenses. The big idea is to reduce unplanned purchases, which can add up in ways you'd never expect. For example, buying a $15 pizza and one CD per week costs $6,240 over four years!

- *Avoid Unnecessary Fees* Just having the wrong kind of checking account can cost you hundreds of dollars in banking fees. In addition, paying bills late (like credit card bills) not only damages your credit, but it costs you plenty in late fees.

- *Borrow Wisely* Student loans help millions of people get a college education, but students often borrow money they could earn with a job or by budgeting their money. Borrowing a thousand dollars less per year, for example, will give you a "pay raise" of $60 per month over a 10 year repayment period.

The Credit Card Trap

College students tend to be pretty smart, but 3 out of 5 first year students with credit cards "max them out" within the first year.

In addition, many students with credit cards fall into the minimum payment trap - confusing their ability to make the minimum monthly payment with actually repaying their debt. Making just the required payment ends up costing you 3 times or more than the amount you originally charged!

Remember - if you can eat, drink or wear an item, don't use a credit card!

Repaying Loans

You have to begin repaying loans when you graduate from college, leave college before graduation, or drop below half-time enrollment. Typically, you have a six-month grace period before repayment begins.

- *Payment Plans* Most students repay loans over 10 years. Lenders also have extended repayment plans that lower monthly payments, but this increases the total cost of the loan due to interest over a longer period of time.

- *Delaying Repayment* There are two ways to delay repayment – deferment and forbearance. A deferment may be obtained for a variety of reasons, such as attending grad school or joining the Peace Corps. Forbearance is granted for other special situations, including health problems, severe financial hardship, and serving in a medical residency. Interest may be charged during the period you are not making payments.

- *Loan Forgiveness* Depending on the type of work you do after graduation, you may have all or part of your loans forgiven. For example, teaching in a low-income area, volunteering for Americorps, and working in certain medical fields all qualify for loan forgiveness – depending on the lender and type of loan.

Visit the Resources area of FinancialLiteracy101.org for more information.