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# UNDERSTANDING CREDIT & MANAGING STUDENT LOANS

*DEVELOPED BY*

VIRGINIA BANKERS ASSOCIATION EDUCATION FOUNDATION  
& VBA EMERGING BANK LEADERS



# TYPES OF FINANCIAL INSTITUTIONS

- Banks\*
- Credit Unions\*
- Savings & Loan Associations\*
- Savings Banks\*
- Brokerage Firms
- Pay-day Lenders
- Credit Card Companies
- Investment Banks

*\*Deposits Insured up to \$250,000*



# BEING “BANKED”

<b>Advantages of Being “Banked”</b>	<b>Disadvantages of being “Unbanked”</b>
Access to Money	Limited Access to Credit
Convenience	No Insurance
Safe/Insured	Potential for Loss (Robbery, Fire, Etc.)

# BASIC SERVICES PROVIDED BY FINANCIAL INSTITUTIONS

- **Checking Accounts** – Quick access to funds on demand
- **Savings Accounts** – Pays interest and not as easily accessible
- **Certificates of Deposit** – Pays interest with specific maturity or accessibility
- **Consumer Loans & Credit Cards** – Secured and unsecured method of purchasing consumable goods and paying for them over time



# IS MY MONEY SAFE?

- **Banks, Savings Banks and Savings & Loan Association** – Federal Deposit Insurance Corporation (FDIC) – Up to \$250,000
- **Credit Unions** – National Credit Union Share Insurance Fund (NCUSIF) – Up to \$250,000



# COMMON DEBT PROBLEMS

- Liens
- Foreclosures
- Garnishments
- Bankruptcy (Chapter 7 & 13)
- Repossessions
- Evictions
- Student loans

# AVOIDING DEBT PROBLEMS

- Stick to a budget.
- Maintain a record keeping system.
- Consider early payoffs, where advantageous.
- Make sure to live within your means and only use debt that is within a level that your income can support.
- Make it your goal to eventually live debt free.



# UNDERSTANDING CREDIT

THE IMPORTANCE OF UNDERSTANDING YOUR CREDIT SCORE



# MEASURING YOUR CREDIT

## 4 Types of Information Make Up Your Individual Credit Report

*Personal Information:*

Name, address, SS#, DOB & employment information

*Accounts:*

Credit accounts that report on you

*Inquiries:*

Lenders and others who check your credit report

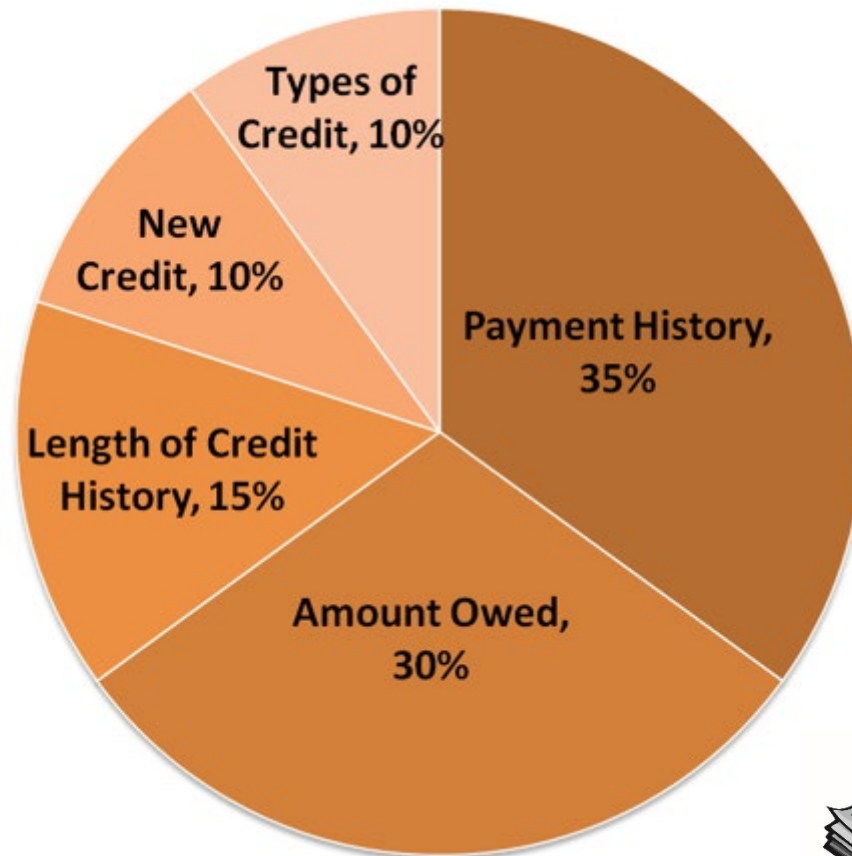
*Negative Items:*

Delinquency information and public records (bankruptcy, tax liens, judgements, etc.)



# CREDIT SCORE MAKE UP

Credit Score = A Number That Summarizes Your Credit Risk



# CONSEQUENCES OF A POOR CREDIT RATING

- Difficult to qualify for credit cards, loans, mortgages
- Increase in auto insurance rates
- Higher rates of interest when borrowing
- May be declined a cell phone account
- Can stay on your record a long time (judgments, bankruptcy)
- May not be able to open a deposit account
- May be declined to lease an apartment
- Could prohibit you from receiving a job offer



CHECK YOUR CREDIT ANNUALLY!

[www.annualcreditreport.com](http://www.annualcreditreport.com)

Annual Credit Report

P. O. Box 105281

Atlanta, GA 30348-5281

| 877 FACT ACT (1 877 322 8228)



# CREDIT REPORTING AGENCIES

TransUnion

[www.transunion.com](http://www.transunion.com)

(800) 888 4213

Equifax

[www.equifax.com](http://www.equifax.com)

(800) 685 1111

Experian

[www.experian.com](http://www.experian.com)

(888) 397 3742

***Note: There are many other websites that advertise “free” credit reports, but free comes only with the purchase of a credit monitoring service.***



# SOURCES OF FINANCING/CREDIT

- Rent-to-Own
- Installment Plans/Layaway
- Retail Stores
- Banks & Credit Unions
- Finance Companies
- Pawn Shops
- Loans – Secured and Unsecured
- Private Individuals
- Auto Dealerships/ Manufacturers
- Payday Lender



# WHICH FINANCING METHOD IS RIGHT FOR YOU?

- What are you looking to accomplish?  
(lowest interest rate)
- Is there a certain time by which you need the item?  
(paid for by end of year)
- How much can you afford to spend and when?  
(no down payment required)

# THE OPPORTUNITY COST OF CREDIT

**IS**

the decreased future purchasing power

(giving up what could be bought in the future with the money  
that must be repaid)





# UNDERSTANDING HOW A FICO CREDIT SCORE IS DETERMINED





# CREDIT CARDS

THEIR FEATURES AND IMPACT ON PERSONAL FINANCIAL PLANNING

# CREDIT CARDS

Using a “credit” card is a form of “credit.” “Credit” is a deferred payment or loan purchase – the word is related to “credible,” meaning belief or confidence in something. *For example, credit is confidence in a buyer’s likelihood of repaying a loan.*

The cost of using a credit card comes in the form of **annual fees** and **interest**.

- An annual fee is a charge by a credit card issuer for use of the card and their services. Annual fees vary, but can range from \$25 to \$100.
- Interest is the price you pay for the use of borrowed money.

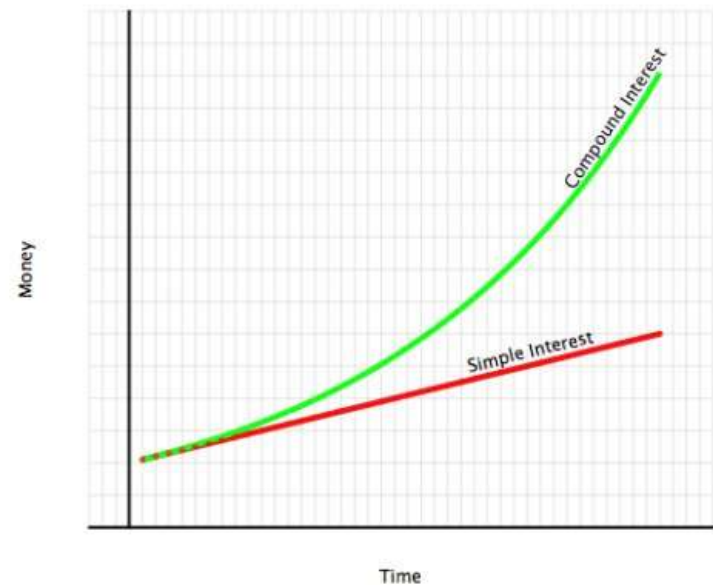


# COMPOUNDED INTEREST VS. SIMPLE INTEREST

**Compounded interest** arises when interest is added to the principal, so that from that moment on, the interest that has been added *also itself* earns interest. This addition of interest to the principal is called *compounding*.

**Simple interest** is not added to the principal (i.e., it is not compounded).

*For example, a loan with \$100 initial principal and 1% interest per month would have a balance of \$101 at the end of the first month, \$102.01 at the end of the second month, and so on. In this example, interest is compounded monthly.*



# DEBIT CARDS VS. CREDIT CARDS



A debit card (or check card) is not a form of credit. Debit cards are directly linked to the money in your bank accounts. When using your debit card (even if you select credit), you are not deferring (or putting off) payment.



Think about the pros and cons of having a credit card. Be sure you understand the terms of your agreement with a card issuer and always use your card wisely.



# STUDENT LOANS

MAKING INFORMED FINANCIAL DECISIONS ABOUT PAYING FOR COLLEGE

# HOW MUCH WILL COLLEGE COST?

- Costs vary widely!
- Remember, it's not just tuition and fees. Housing, meals, books, supplies, personal and transportation expenses must be considered when calculating total cost.
- According to the College Board, the average cost of tuition and fees for the 2017–2018 school year was **\$34,740** at private colleges, **\$9,970** for state residents at public colleges, and **\$25,620** for out-of-state residents attending public universities.



# COLLEGE COST CALCULATORS

- College Cost Projector: [FinAid.org](http://FinAid.org)
- Budget Calculator: [StudentAid.gov](http://StudentAid.gov)



*According to the Project on Student Debt, 69% of graduating college seniors in 2013 had student loans – with an average amount owed of \$28,400. The figure was up 2% from 2012.*



# WHAT FINANCIAL AID IS AVAILABLE?

- StudentAid.gov is a great starting point
  - This division of the US Department of Education is the largest supplier of student financial aid in the nation.
  - Provides grants, loans and work-student funds for college OR career school.



# FREE APPLICATION FOR FEDERAL STUDENT AID (FAFSA)

- Completing the FAFSA is the first step toward receiving federal student financial aid. It's also the basis for state and school financial aid.
  - Available after January 1 at [fafsa.ed.gov](https://fafsa.ed.gov)
  - FAFSA must be filled out for every school year
- When you fill out your FAFSA, you will also create a Federal Student Aid Identification (FSA ID), used to:
  - get into the Federal Student Aid system
  - fill out your FAFSA form
  - legally sign your student aid documents



# STUDENT AID REPORT (SAR)

- After you submit your FAFSA, you will receive a Student Aid Report (SAR)
  - Includes basic information about your eligibility for federal student aid
  - Information can be requested by your college to assess need for school-based resources



# TYPES OF FINANCIAL AID

- There are four basic types of financial aid available for college:
  - Grants (free money)
  - Scholarships (free money)
  - Federal Work-Study employment opportunities (money you earn and can use to help pay college costs)
  - Loans (money you have to pay back—with interest).
- Federal funding includes Pell Grants, Stafford loans (subsidized and unsubsidized) and Parent PLUS loans.
  - Each option requires a completed FAFSA.



# GRANTS/SCHOLARSHIPS

- Grants and scholarships should be your first choice:
  - They are free money.- you don't have to pay them back.
  - Other sources of grants/scholarships:
    - the financial aid office at a college or career school
    - a high school or TRIO counselor
    - the U.S. Department of Labor's [free scholarship search tool](#)
    - federal agencies
    - your state
    - your library
    - foundations, religious or community organizations, local businesses, or civic groups
    - organizations related to your field of interest, like professional associations
    - ethnicity-based organizations
    - your employer or your parents' employers



# FEDERAL WORK STUDY

- Need-based grant that requires you to work part-time while you're in school.
- You are only paid for the hours you work.



# STUDENT LOANS

- Student loans fall into two categories: federal loans and private loans.
- **Federal loans** include:
  - Direct Loans, where the U.S. Department of Education is the lender;
  - Federal Family Education Loans (FFEL), where private lenders make loans backed by the federal government;
  - Federal Perkins Loans, low-interest federal student loans for undergraduate and graduate students with exceptional financial need; and
  - PLUS loans, federal loans that graduate or professional students and parents of dependent undergraduate students can use to help pay for college or career school.
- **Private loans**, sometimes called “alternative loans,” are offered by private lenders, like banks, and do not include the benefits and protections that come with federal loans.



# MANAGING STUDENT LOAN DEBT – FEDERAL LOANS

## ■ Federal Loans

- If you have federal loans, the Department of Education has free programs that could help, including:
  - income-driven repayment plans — your monthly payment is based on how much money you make
  - deferment and forbearance — you can postpone making payments, if there's a good reason you can't repay right away, though interest might cause what you owe to increase
  - loan forgiveness or loan discharge — in some circumstances, you don't have to repay some or all of your loans. You might qualify if, for instance, you work for a government or not-for-profit organization, if you become disabled, or if your school closed or committed fraud. Also, under certain income-driven repayment plans, any balance that remains after 20 or 25 years of payments is forgiven. In some cases, you may owe income taxes on the forgiven or discharged amount.





# MANAGING STUDENT LOAN DEBT – PRIVATE LOANS

- **Private Loans**

- With private student loans, you typically have fewer repayment options, especially when it comes to loan forgiveness or cancellation.
- To explore your options, contact your loan servicer directly.
- If you don't know who your private student loan servicer is, look at a recent billing statement.

# LOAN CONSOLIDATION

- Consolidating your student loans means combining multiple loans into one loan.
- Typically, people consolidate their loans to simplify monthly payments or get new repayment terms.
- When you consolidate your loans, you get a brand new loan with new terms.
- If all of your education loans have **fixed interest rates**, it may not matter when you consolidate.
- If some or all of your loans have **variable interest rates**, when you consolidate into a fixed loan may affect the interest rate of your loan.



# IMPORTANT THINGS TO REMEMBER

- Payment schedule for multiyear loans typically lasts 10 or more years.
- As long as student loan debts are paid on time, they are a record of responsible debt management.
- Default or mismanaged debt is likely to have a severe impact on your credit score.
- Student loans are NOT dischargeable through bankruptcy.



# AVOIDING STUDENT LOAN DEBT RELIEF SCAMS

**FTC** | PROTECTING AMERICA'S CONSUMERS

## Student Loan Debt Relief Scams



# SIGNS OF STUDENT LOAN DEBT RELIEF SCAMS

- REMEMBER: there's nothing a student loan debt relief company can do for you that you can't do yourself for FREE
- Never pay an up-front fee.
- Only scammers promise fast loan forgiveness.
- A Department of Education seal doesn't mean it's legit.
- Don't be rushed into a bad decision.
- Don't give away your FSA ID.





QUESTIONS?