

**If You Only Have One Opportunity to Counsel
Students Regarding the Impact of Their
Financial Behavior ... What Do You Do?**

**Money Management
Personal Financial Planning for Your *Financial Aid
Officer* Education Investment**

**TASFAA University School of Financial Aid
Officer Life-long Learning**



April 12, 2011

Part of the ***Life-long Learning Series.***

“An INVESTMENT IN EDUCATION always pays the highest returns.”

Benjamin Franklin

“Economy does not lie in SPARING money, but in SPENDING it wisely.”

Thomas Huxley

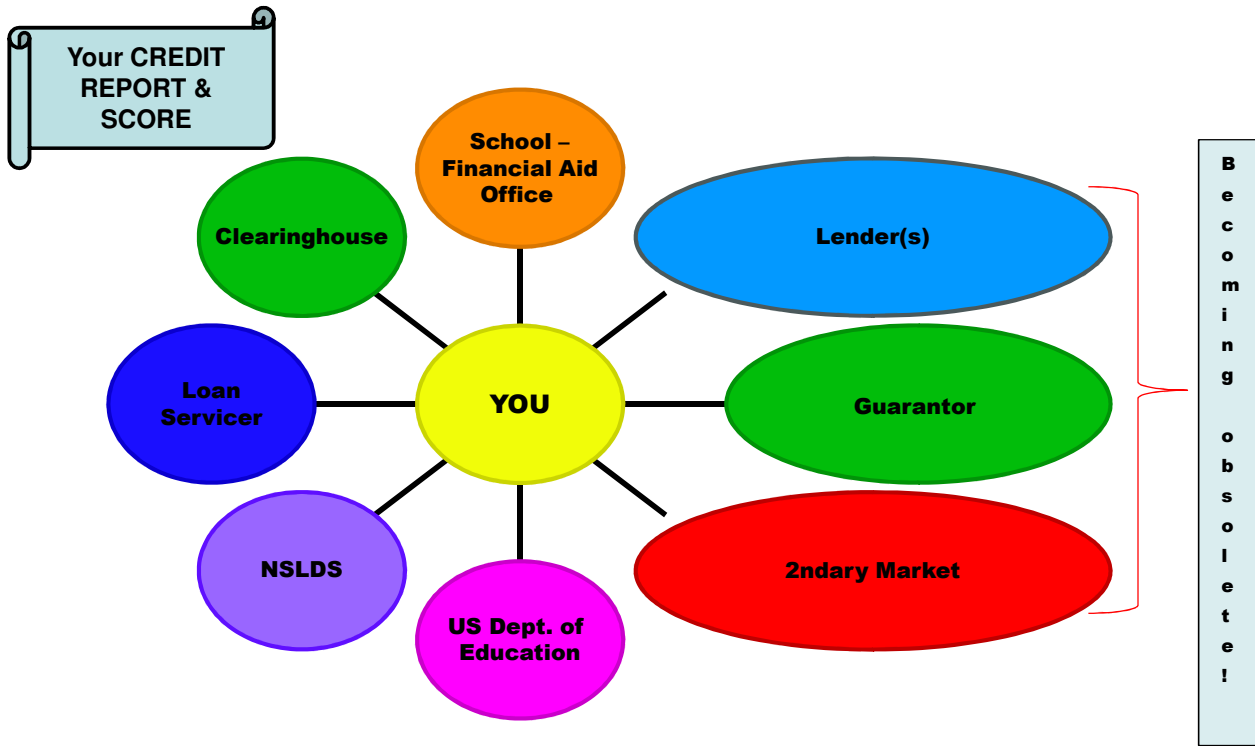
“If you can’t afford it, don’t buy it.”

Warren Buffett

“Every action has a consequence ... so think before you act for heaven’s sake!!!”

Frank & Anna Wagner

PARTICIPANTS IN STUDENT LOANS



GOAL & OBJECTIVES

GOAL:

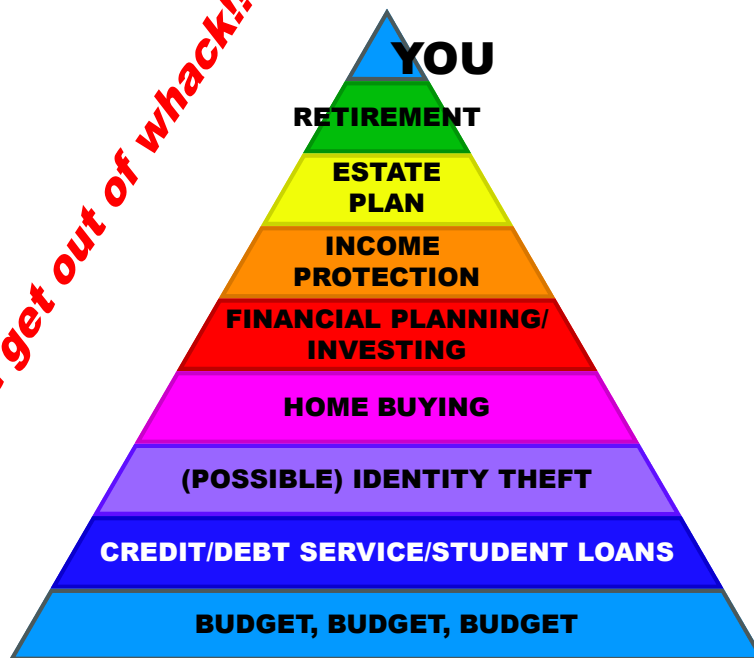
- **Identify basics of personal financial planning to take control of your financial health/wealth**

OBJECTIVES:

- **Identify what \$\$\$ means to you to understand how you behave with it**
- **Learn value of (written) goals to know where you're going**
- **Recognize how to build your personal budget to identify needs vs wants**
- **Clarify value of a credit history/score to know how you're being evaluated**
- **Describe elements of a credit score**
- **Realize impact of a credit score to know what it can be costing you**
- **Identify rationale & elements of "financial order" to be ahead of the game**
- **Maintain cognizance of what is happening to your student loans**

YOUR FINANCIAL PLAN

don't let it get out of whack!!



EARLY MEMORIES OF MONEY

- **Love?**
- **Security?**
- **Independence?**
- **Paying Bills?**
- **Donate?**
- **NEVER** enough of it?



FORMULATING A FINANCIAL PLAN

1st thing financial planner/investment representative asks
“what is your (written) budget?”

2nd thing financial planner/investment representative asks
“what are your (written) goals?”



How do you feel about being wealthy?

“Financial incompatibility” (top 2) **reasons** for divorce in the
United States

GOAL(s) WORKSHEET

TODAY'S DATE	GOAL	GOAL DATE	WHAT (\$\$\$) IS NECESSARY TO REACH GOAL???

DAILY CONTROLLABLE COSTS CAN MAKE A DIFFERENCE IN YOUR FUTURE!!

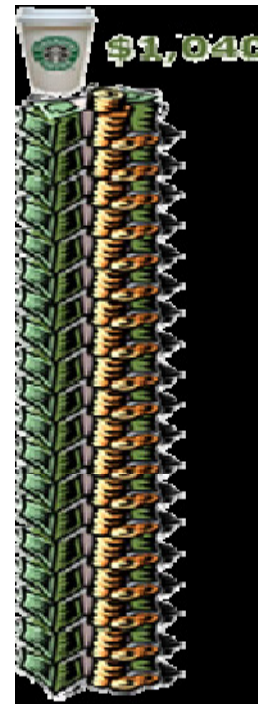


THE **REAL** COST OF COFFEE

- 1 cup = **\$4**
- 1 cup every weekday = **\$20**
- 1 cup every weekday for year = **\$1,040**

could actually wind up costing you 2-3X's that, if paid for with student loans and/or credit cards.

After 10 years = **\$10,400 of coffee**



HOW DAILY CONTROLLABLE COST(s) CAN MAKE A DIFFERENCE

→ Saving \$20/week for 10 years = **\$1,040/year**

→ Expected rate of return **1.09% APR (National*)**,
capitalizing monthly in a standard MMA

→ **\$11,301 (conservatively) saved vs \$10,400 of coffee**

*source: bankrate.com

**SO WHAT'S ANOTHER \$1,040 WHEN YOU'RE
ALREADY IN SO MUCH DEBT?**

- If you use a student loan or a credit card (that you don't pay off, completely, each month)
- If there is capitalization
- If it is paid off over 10+ years
- It could cost \$3,000+
- **THE MORE YOU BORROW, NOW, THE FARTHER YOU ARE FROM REALIZING YOUR FINANCIAL GOALS/DREAMS IN THE FUTURE!!!!**

ESTIMATED COST OF ATTENDANCE **2011-2012**

• Tuition/fees	\$43,700 (fixed)
• Books & Supplies	\$1,720 (discretionary)
• Housing	\$9,170 (discretionary)
• Meals	\$3,730 (discretionary)
• Personal/miscellaneous	\$5,090 (discretionary)
• Transportation	\$1,810 (discretionary)
• TOTAL:	\$65,220
• Discretionary costs	\$21,520 (33% are <u>controllable</u> , discretionary costs)

Did not calculate loan fees (for this presentation)

INTERACTIVE BUDGET WORKSHEET

(CAN BE BUILT FOR ANY # OF MONTHS)

Household (monthly) Income	Income 1 (after taxes)		TOTAL DAILY COST	\$0
	Other income/gifts, etc.			
TOTAL MONTHLY INCOME		\$0	TOTAL WEEKLY COST	\$0

Household (monthly) Income	Income 2 (after taxes)		TOTAL MONTHLY	\$0
	Other income/gifts, etc.			
TOTAL MONTHLY INCOME		\$0		

Financial Aid	Total Financial Aid		Combined Incomes & Financial Aid TOTAL:	\$0
	MINUS Tuition & Fees			
	Total REFUND		\$0	Combined Expenses TOTAL:
Total MONTHLY Financial Aid		\$0	SURPLUS or DEFICIT:	\$0
MONTHLY INCOME & FIN. AID		\$0		

WHAT'S NEXT?

- ▶ **this is the time to focus on your financial HEALTH/WEALTH by **minimizing educational debt****
“wealth is a marathon” (Dave Ramsey)
- ▶ **lifestyle = **live moderately**, now**
- ▶ **don't confuse your “**wants**” with “**needs**”** (Abraham Maslow)
- ▶ **try to **live on less** than (standard) student budget**
(no law that says you **MUST** borrow what is listed on your award letter)
- ▶ **set & focus** on your “**financial goals**”

(POINT OF) REFERENCE INFORMATION

Starting Salaries (2010-11):

PGY-1	\$48,460
PGY-2	\$50,361
PGY-3	\$52,425
PGY-4	\$54,541
PGY-5	\$56,670
PGY-6	\$58,845
PGY-7	\$60,955
PGY-8	\$63,837

Average Debt/Class (2010):

\$1 - \$19,999	6
\$20,000 - \$29,999	2
\$30,000 - \$39,999	1
\$40,000 - \$49,999	1
\$50,000 - \$59,999	3
\$60,000 - \$69,999	1
\$70,000 - \$79,999	0
\$80,000 - \$89,999	1
\$90,000 - \$99,999	2
\$100,000 - \$109,999	5
\$110,000 - \$119,999	3
\$120,000 - \$129,999	6
\$130,000 - \$139,999	12
\$140,000 - \$149,999	10
\$150,000 - \$159,999	9
\$160,000 - \$169,999	3
\$170,000 - \$179,999	5
\$180,000 - \$189,999	3
\$190,000 - \$199,999	2
\$200,000 - \$239,999	0
\$240,00 - \$249,999	1

THEORY OF COMPOUNDING INTEREST

→ be mindful of **PRINCIPLE OF COMPOUNDING/CAPITALIZING INTEREST** on your student loans and avoid it, if possible!!!



Principal + Compounded Interest = New/larger principal

*AAMC 2010 Graduation Questionnaire Data ([All Schools](#))

**HOW CREDIT FACTORS IN TO
YOUR OVERALL FINANCIAL
PLAN**

ELEMENTS OF A CREDIT REPORT

- **HISTORICAL SUMMARY/ANY CONTRACTUAL FINANCIAL ARRANGEMENT:**
 - of all “hard” inquiries within last 12 months
 - type(s) of account(s)
 - “open” accounts, credit limit(s), & if you’re “paying as agreed”
 - “closed” accounts, credit limit(s) & any “past due” activity
 - “installment” accounts (STUDENT LOANS), charge accounts & payment status/activity
 - Sometimes, **ERRONEOUS** information!!!
- **HARD INQUIRY** = potential creditor is checking your credit to loan you \$\$\$\$
- **SOFT INQUIRY** = you are checking your credit

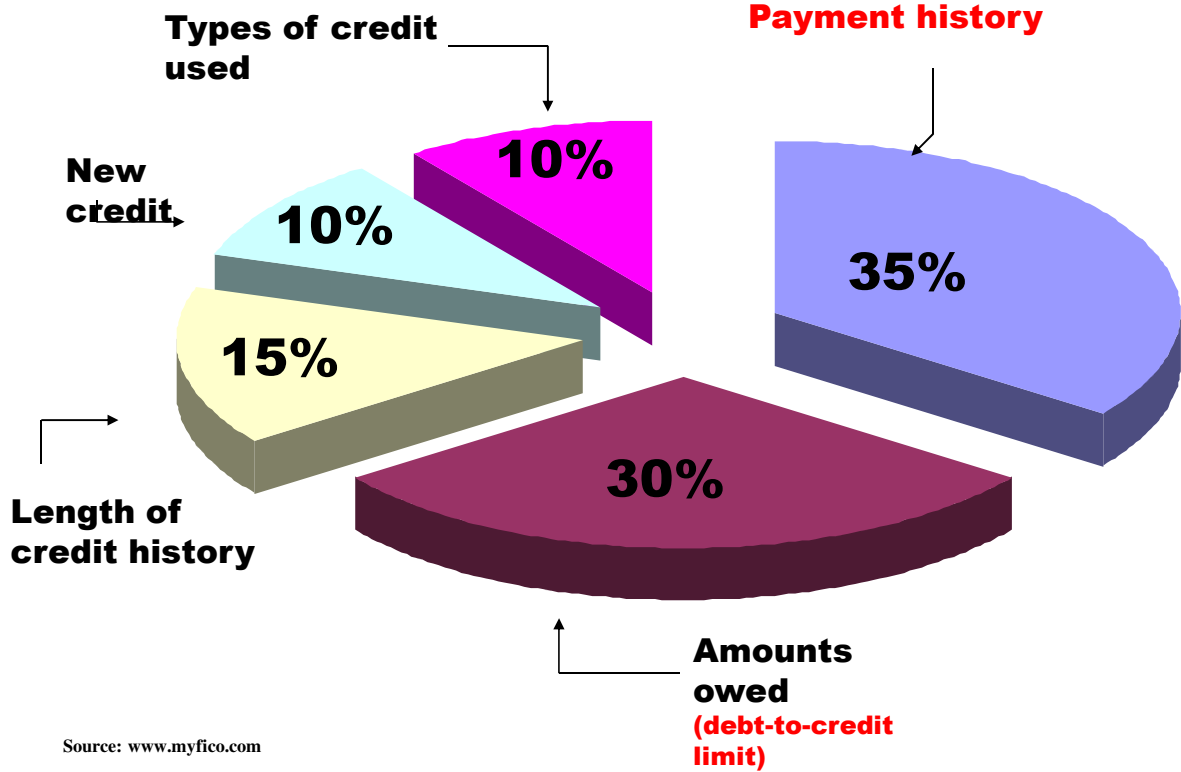
(WHAT IS A) FICO CREDIT SCORE?

- Fair Isaac Corporation specializes in predictive analytics
- A multi-variate, multi-equation model which calculates a number based on your personal credit **BEHAVIOR**
 - ▶ Credit **“GRADE”**
 - ▶ how well you handle money!!
 - ▶ **indicates likelihood** someone will repay a loan
- FICO score is calculated **BASED ON PAYMENT INFORMATION ON YOUR CREDIT REPORT**
 - ▶ real-time (monthly)

Dave Ramsey = “measures your ability to go into debt!”

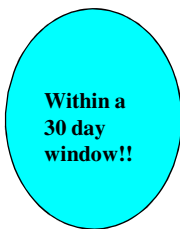


FACTORS INFLUENCING CREDIT SCORES



WHAT DOES NOT COUNT (AGAINST YOU) IN A CREDIT SCORE?

Shopping for **“best”** mortgage rates

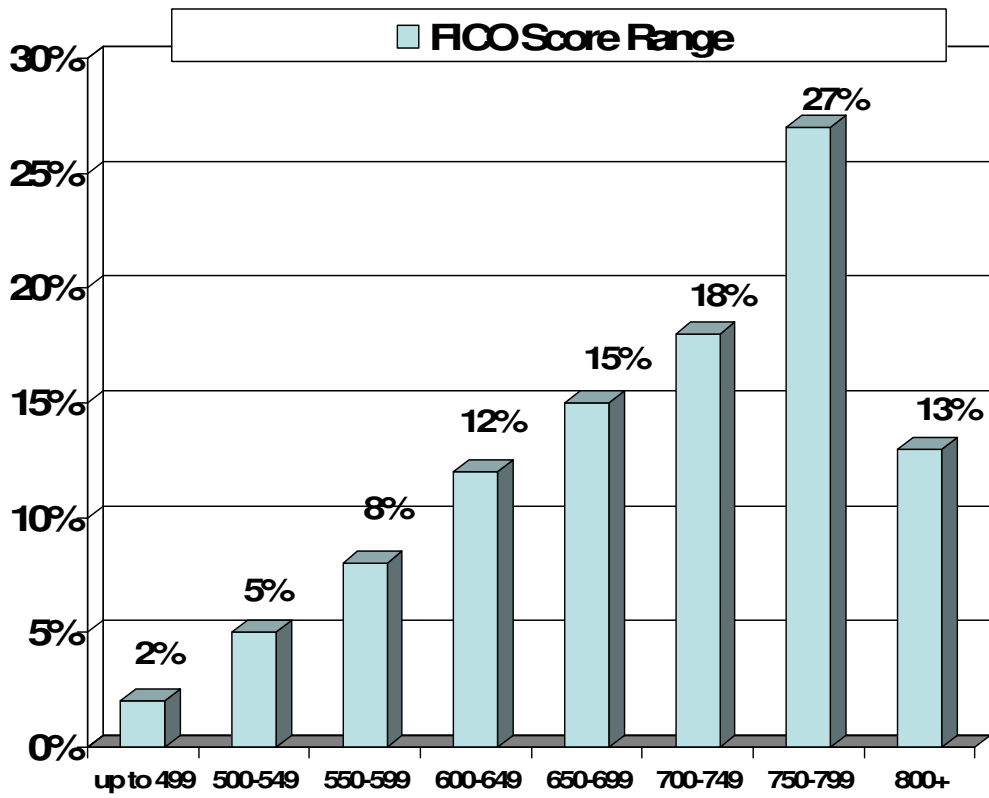


Shopping for **“best”** car loan rates

Shopping for **“best”** home equity loan rates

- ▶ historically, a person with 6 or more **“hard inquiries”** on their credit report is 8 times more likely to declare bankruptcy than someone with **NO** inquiries
- ▶ more **“hard inquires”** makes you appear risky to potential lenders

U.S. FICO SCORE RANGES



SIGNIFICANCE OF (GOOD) CREDIT

30 YEAR FIXED MORTGAGE (\$250,000)

FICO® score	Last year	APR	Monthly payment *
760-850	Same	4.581%	\$1,279 *
700-759	Same	4.803%	\$1,312 *
680-699	660-699	4.980%	\$1,339 *
660-679	620-659	5.194%	\$1,372 *
640-659	580-619	5.624%	\$1,439 *
620-639	500-579	6.170%	\$1,526 *

*Approximate
Source:myfico.com

36 MONTH AUTO LOAN (**\$25,000**)

FICO® score	<u>APR</u>	Monthly payment *
720-850	4.773%	\$747
690-719	6.288%	\$764
660-689	8.157%	\$785
620-659	11.734%	\$827
590-619	17.558%	\$898
500-589	18.553%	\$911

* approximate
Source: myfico.com

COST OF POOR/MEDIOCRE CREDIT – OVER A LIFETIME

- **GLEN**
- Credit Score: **750**
- Always paid on time & usually, more than what was due
- Interest - Credit Cards: **9.90%**
- Interest paid: **\$39,600**
- Interest - car loan(s): **5.00%**
- Interest paid (lifetime of cars): **\$21,166**
- Mortgage (1st): **5.50%**
- Interest (10 years): **\$174,760**
- Mortgage (2nd): **5.50%**
- Interest (30 years): **\$417,616**
- **TOTAL INTEREST: \$653,142**

- **MARY**
- Credit Score: **650**
- Not always on time & frequently, only “minimum due”
- Interest - Credit Cards: **19.90%**
- Interest paid: **\$79,600**
- Interest - car loan(s): **8.00%**
- Interest paid (lifetime of cars): **\$34,653**
- Mortgage (1st): **7.375%**
- Interest (10 years): **\$243,020**
- Mortgage (2nd): **7.375%**
- Interest (30 years): **\$594,572**
- **TOTAL INTEREST: \$951,845**

**Mary paid almost \$300,000 more, in interest, than Glen.
This does NOT include the loss of investments had she had
good credit & invested the \$\$\$ she saved.**

source: Your Credit Score, by Liz Pulliam Weston

CONSEQUENCES

- **DELINQUENCY AND/OR DEFAULT (on student loans):**

- **collection agency**
- **garnish wages**
- **appears on credit report**
- **withhold Medicare/Medicaid reimbursements**

- **POOR OR MEDIOCRE CREDIT:**

- **low credit score**
 - cost of borrowing
 - cost of insurance premiums
 - less "disposable income" to invest
- **can/will affect employment opportunities!!**
- **can/will affect licensure!!**



MANAGING YOUR CREDIT

- ▶ know what you owe & live within your means
- ▶ borrow only what you can afford
- ▶ use credit wisely & check your credit report annually/**QUARTERLY**
- ▶ recognize signs of financial difficulty
- ▶ pay bills on time
- ▶ reduce number of department store cards
- ▶ treat bankruptcy as a last resort
- ▶ change address/hold mail via www.usps.com
- ▶ no more than 1 or 2 credit cards
- ▶ keep balances < than **30%** of credit limit
- ▶ pay more than minimum required payment
- ▶ limit credit balance transfers
- ▶ know a scam when you see one
- ▶ guard against identify theft

(MIS)MANAGING YOUR CREDIT

writing **bad checks** (doesn't hurt FICO, but gets reported)

opting for **100% financing** on depreciating items such as automobiles
– think about “previously owned” with a warranty

don't declare **bankruptcy!!!**

no more than **2 credit** cards

reduce number of department store cards

keep balances less **than 30%** of available credit

pay **more than minimum** required amount

limit credit balance transfers

check for **errors** on your credit report

MONITOR YOUR CREDIT

- ▶ “Out of whack,” finances, can cause you to have to put everything else **“ON HOLD”**
- ▶ **FREE**, annual credit report from:
 - ▶ Experian, Equifax, & TransUnion
 - ▶ www.annualcreditreport.com
 - ▶ stagger your requests, **quarterly**, to keep an eye on your credit
 - ▶ each offers a “credit score” (for a fee)
 - ▶ check for erroneous information
 - similar names
 - **similar SS's**
 - identify theft

CREDIT CARDS

Annual Percentage Rate (APR) for Purchases	0% until the last day of the billing period ending during November 2007*, then the standard APR, an estimated rate between 10.99% and 17.99% (see Variable Rate Information)
Other APRs	Balance Transfers: If requested with the Acceptance Form, 0% until the last day of the billing period ending during November 2007*, then the standard APR for purchases Default Rate: Between 15.99% and 28.99%, based on payment history Cash Advances: 20.99%
Variable Rate Information	The following APRs may vary monthly. Standard purchase APR equals the Prime Rate plus an amount (the Margin) between 2.74% and 9.74%*. Default Rate equals the standard purchase APR plus 5 percentage points for each late payment (maximum 28.99%)*
Grace Period for Repayment of the Balance of Purchases	At least 25 days when you pay your balance in full each month
Method of Computing the Balance for Purchases	Two-cycle Average Daily Balance (including new purchases)
Annual Fee: NONE	Minimum Finance Charge: \$.50

CASH ADVANCE TRANSACTION FEE: 3% for each cash advance, with a minimum of \$5 and no maximum.
LATE FEE: \$15 on balances up to \$500, and \$39 on balances over \$500.
OVERLIMIT FEE: \$15 on balances up to \$500, and \$39 on balances over \$500.

***DEFAULT RATE:** *If you are late making a payment, any rates not exceeding the Default Rate will change to be the same rate and type (fixed or variable) as the Default Rate. See Cardmember Agreement for details.

Too many offers ...call **888-5-OPTOUT (888-567-8688)**
or
go online to **www.optoutprescreen.com**

INTEREST RATES & FEES

- **INTEREST RATES:**
- **Introductory Rate:** charged for a specified period of time
- **Standard Rate:** rate charged once introductory period expires
- **Fixed:** a set interest rate
- **Variable:** based on index & usually resets quarterly, etc.
- **Periodic:** rate is used to calculate finance charges
 - ▶ Annual Percentage Rate (APR) is **determined by your credit score**

• source: www.federalreserve.gov

- **FEES:**
- **Cash Advance:** usually (2 - 4%)
 - ▶ typically, at a higher interest rate
 - ▶ may not have a grace period
- **Balance Transfer:** can be a flat fee or percent of balance being transferred
- **Late:** assessed when payments arrive late
 - ▶ can't exceed \$25 unless 1 of last 6 payments was late
 - ▶ can't exceed minimum payment
- **Over Limit:** assessed when balance exceeds credit limit
 - ▶ not necessarily a one-time fee
 - ▶ you must agree to fee being assessed BUT, if you don't, they can choose to deny a purchase

**ID THEFT
&
FRAUD PREVENTION**

IDENTITY THEFT/FRAUD

- ▶ unauthorized use of another person's personal information to achieve illicit financial gain and/or commit other crimes
 - ▶ criminal (offense)
 - ▶ including name, Social Security number, and/or a credit card number
- ▶ **TO PROTECT YOURSELF:** only use credit card number, on internet, if secured site (Verisign, etc.)
 - ▶ use a specific credit card **ONLY** for internet purchases
- subscribe to DO NOT CALL service www.donotcall.gov
- **check your credit report, quarterly**
- avoid public computers, free Wi-Fi with sensitive information
- if a victim of identity theft/fraud, **"freeze"** your credit files for a while (any 1 of credit reporting agencies)

source: (Federal Trade Commission)

IDENTITY THEFT STATISTICS

- ID theft on the rise
 - **10M** victims in 2008
 - victims lose average of **\$1,820 to \$14,340** in wages dealing with cases
 - costs businesses **\$221B** per year
 - **19%** of victims receive **higher credit rates** due to ID theft
 - **16%** of victims pay **higher insurance premiums**
 - **11%** report ID theft has had a **negative impact** on securing job
 - **12%** of victims end up having **warrants issued in their name for crimes** committed by ID thief
- **66%** of victims information used to open credit in their name
 - **28%** of victims information used to purchase cell phone service
 - dumpster diving is alive & well
 - stolen wallet/checkbook are most common ID theft (**43%**)
 - on-line methods (**11%**)
 - **mail** makes up about (**9%**)
 - **400,000** children/year, under age of 18, have their ID stolen

(source: www.Kiplinger.com Protect Your Kids from ID Theft, 8/12/10)

source: www.spendonlife.com

HELPFUL WEBSITES

- www.bankrate.com
- www.myfico.com
- www.annualcreditreport.com
- www.equifax.com
- www.experian.com
- www.transunion.com
- www.optoutprescreen.com
- www.quicken.com
- www.tcalc.com/calculators.asp
- www.ibrinfo.org
- www.ftc.gov

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THANK YOU!!

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