

\$uccessful Start and the Office of Student Services Present:

# **MONEY MANAGEMENT**

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# SESSION OBJECTIVES

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- Put you in a position to begin budgeting and saving money even while you are in school
- Know the basics of credit reports and credit scores and put into practice simple habits that will save you thousands of dollars over your lifetime
- Give you easy tips to help decrease the overall cost of your educational borrowing
- Understand loan repayment options

# BUDGETING

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## WHY BUDGET?

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- ✖ Tracking your expenses gives you a strong sense of where your money goes and can help you reach your financial goals

## OBSTACLES TO BUDGETING

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- Discipline
- Thinking that it doesn't matter
- Procrastinating
- Family or other will send me more money
- My birthday/holiday money will arrive soon
- My student loan check will take care of my expenses

# **SUCCESSFUL BUDGETING**

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- ✖ 5 Quick and Easy Steps:
  - Determine budget categories
  - Identify all sources and amounts of income
  - Identify how dollars are spent today
  - Calculate budget amounts
  - Set goals and make adjustments

## **DETERMINE BUDGET CATEGORIES**

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- Common mistake: Fit your spending into somebody else's categories
- Successful budgeting includes categories that reflect the way you spend money

## IDENTIFY INCOME

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- Review all sources and amounts of income (after-tax) for past three months to determine monthly income
- Examples:
  - + Employment
  - + Student Loans
  - + Checking Account
  - + Savings Account

# **IDENTIFY EXPENSES**

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- Review all bills and expenses for the last three months to determine monthly expenses
- Examples:
  - + Recurring Expenses
  - + Variable Expenses
  - + Yearly Expenses

# **FIXED VS. DISCRETIONARY EXPENSES**

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- Rent
- Groceries
- Utilities
- Car Insurance
- Haircuts
- Laundry
- Cell phones
- Restaurants
- Cable TV
- Vacations
- Takeout
- Designer Clothes

## **SET GOALS AND MAKE ADJUSTMENTS**

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- Set goals that reflect your true financial picture
- Two types of financial goals:
  - +managing your money
  - +spending your money
- Monitor budgeting process for two months to identify areas where you can save

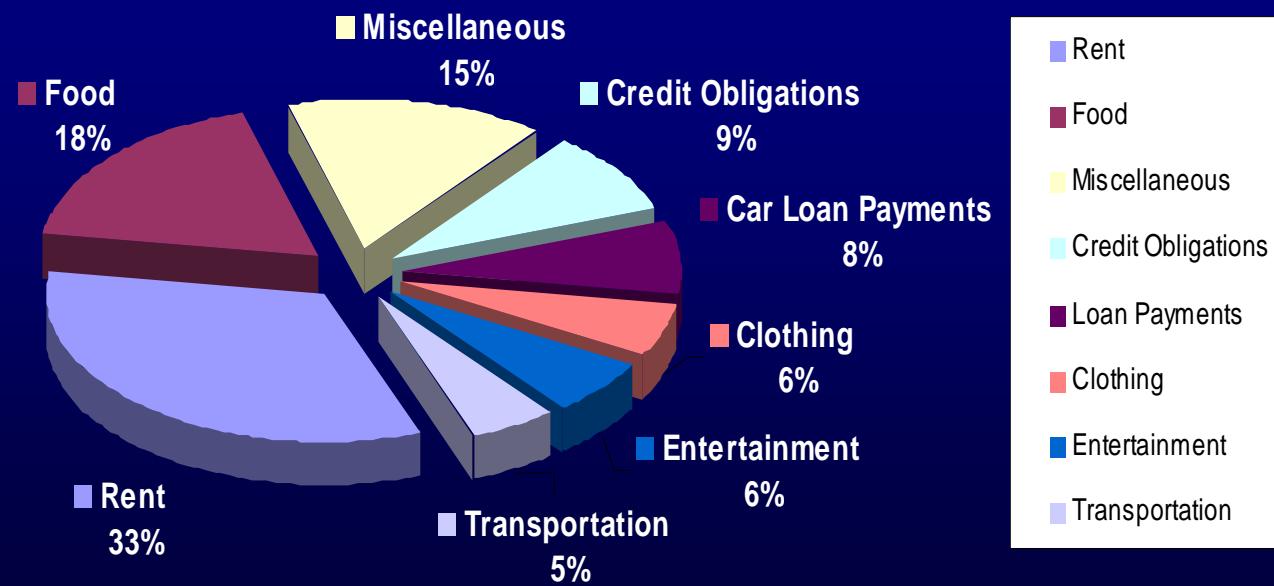
# **EMERGENCY FUNDS**

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- Emergency funds are an absolute necessity!!
- Emergency funds = 3 – 6 months of basic living expenses
- Emergency funds should be kept separate from a savings account that is used primarily for large, planned purchases

# SAMPLE MONTHLY BUDGET

## Sample Monthly Student Budget



# MONEY LEAKAGE

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- ✖ Dinner out every Saturday night:
  - ✖ \$1920 per year
- ✖ One tall Starbucks coffee per weekday:
  - ✖ \$780 per year
- ✖ Wendy's #2 Combo + tax twice a week:
  - ✖ #2 Classic Double® with Cheese Combo
  - ✖ \$364 per year

# **YOUR TIPS ON SAVING MONEY?**

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- Housing?
- Groceries?
- Phone?
- Transportation?
- Banking and Taxes?

# NOW WHAT?

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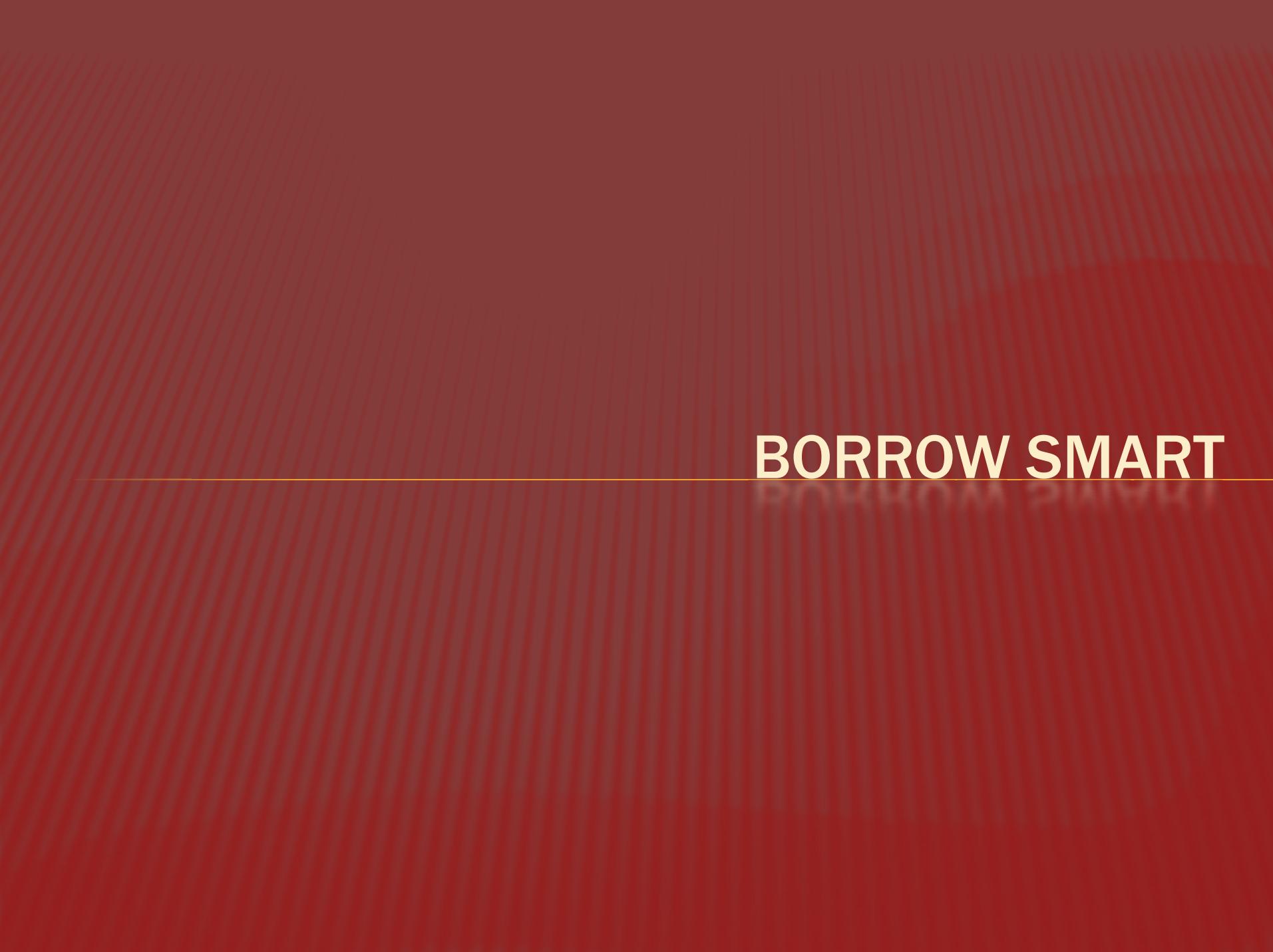
## \* If Deficit

- Look for ways of raising your income
- Look for ways of cutting costs

## BENEFITS OF BUDGETING

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- ✖ Less reliance on credit
- ✖ More buying power
- ✖ Better credit scores
- ✖ Ability to obtain credit any time
- ✖ Lower credit costs (prime rate)



**BORROW SMART**

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## LOAN EXAMPLE- MINIMIZE BORROWING

- ✖ Loan Balance:  
\$30,000.00
- ✖ Monthly Loan  
Payment:\$345.24
- Cumulative Payments:  
\$41,428.91
- ✖ Total Interest Paid:  
\$11,428.91
- ✖ Loan Balance:  
\$28,000.00
- ✖ Monthly Loan  
Payment:\$322.22
- Cumulative Payments:  
\$38,666.99
- ✖ Total Interest Paid:  
\$10,666.99

If you borrow only \$2,000.00 less during your education,  
you will save **\$2,761.92** and \$23.02 per month in  
payments.

## **LOAN EXAMPLE- EARLY REPAYMENT**

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- ✖ Loan Balance: \$22,000.00
- ✖ Loan Interest Rate: 6.80%
- ✖ Loan Term: 15 years  
Monthly Loan Payment:\$195.29
- ✖ Number of Payments: 180  
Cumulative Payments: \$35,152.34
- ✖ Total Interest Paid: **\$13,152.34**

## LOAN EXAMPLE- EARLY REPAYMENT

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- ✖ Loan Balance: \$22,000.00
  - ✖ Loan Interest Rate: 6.80%
  - ✖ Loan Term: 10 years
  - ✖ Monthly Loan Payment:\$253.18
  - ✖ Number of Payments: 120  
Cumulative Payments: \$30,381.04
  - ✖ Total Interest Paid: \$8,381.04
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- ✖ You save **\$4,771.13** in real money. This savings translates into a guaranteed, tax-free, average annual return of 6%.

## **LOAN EXAMPLE- CAPITALIZATION**

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- ✖ Loan Type: Unsubsidized
- ✖ Loan Amount: \$8,900.00
- ✖ Interest Rate: 6.8%
- ✖ Repayment Term: 10 years
- ✖ Capitalization Frequency: Quarterly

## **LOAN EXAMPLE- CAPITALIZATION**

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- ✖ Amount Borrowed: \$8,900.00
- ✖ Amount owed when you leave school:  
\$10,715.60
- ✖ Total Payments: \$14,388.11
- ✖ Total Interest Paid: \$5,488.11
- ✖ In-School Interest: \$1,815.60
  
- ✖ If you had paid interest while in school, you would save **\$622.55**.

## CREDIT CARD EXAMPLE

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✗ Charge	\$1,000.00
✗ Interest	17.99%
✗ Minimum Payment	\$20.00

- ✗ At this payment rate,  
how long will it take to pay the balance?
  - ✗ 93 months (7.75 years)
  - ✗ How much interest was paid?
  - ✗ \$861.02 or 86% of the initial loan amount

## CREDIT CARD EXAMPLE B

✗ Charge	\$1,000.00
✗ Interest	17.99%
✗ Minimum Payment	\$20.00
✗ Monthly Payments Made	\$25.00

- ✗ At this payment rate, how long will it take to pay the balance?
  - ✗ 62 months (5.16 years)
  - ✗ How much interest was paid?
  - ✗ \$538.07 or 54% of the initial loan amount

# CREDIT REPORTS

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# CREDIT REPORT FACTS

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- Record of your credit payment history
- Illustrates the amount you have borrowed in credit cards and loans and your timeliness of payment
- Contains identifying information
- Used to determine creditworthiness

# **ANATOMY OF A CREDIT REPORT**

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Section 1: Personal Identification Information

Section 2: Public Record Information

Section 3: Collection Agency Account Information

Section 4: Credit Account Information

Section 5: Companies Requesting your Credit File

# HOW TO OBTAIN YOUR CREDIT REPORT

## Credit Agencies:

- ✖ Equifax
- ✖ Experian
- ✖ Trans Union

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

- ✖ One free report from each agency every 12 months:
  - ✖ [www.annualcreditreport.com](http://www.annualcreditreport.com)
- ✖ \*\* do not use [www.freecreditreport.com](http://www.freecreditreport.com) \*\*\*

# CREDIT SCORES

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## **ESTABLISHING GOOD CREDIT**

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- ✖ Pay your bills on time
- ✖ Establish credit early
- ✖ Don't max out your account limits
- ✖ Don't apply for too much credit in a short period of time
- ✖ Fill out applications uniformly
- ✖ Check your credit report annually or 4 months before major purchase

# CREDIT SCORE

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- Reflection of the information on your credit report
- Formula developed by Fair and Isaac Corporation (FICO)
- Scores range from 300-850
- Average score is 720
- The lower the score, the greater the risk it is to lend you money

## **REQUIREMENTS FOR THE PERFECT SCORE**

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- Having paid all bills on time during the past seven years
- Having a minimum of 30 years of credit use
- Having between four and six revolving credit accounts

## **IMPACT ON INTEREST RATES**

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- ✖ How much can your FICO score impact the interest you pay on a loan?

**A LOT!!**

# HOW TO BE A WISE BORROWER

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- ✖ Consider your future salary when borrowing – check our website, [www.amsa.com/bor](http://www.amsa.com/bor) to find out what you can expect to earn after graduation
- ✖ Use credit cards sparingly – that \$5 latte could cost you \$15 or more depending on how quickly you repay your balance
- ✖ If you use your credit card, pay “on-time, in full, as agreed”
- ✖ Learn how to budget now – track monthly income and expenses so you know the “big picture”
- ✖ Beware living “in the future” – live like a student today, so you won’t have to later

## **USEFUL WEBSITES**

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- ✖ American Student Assistance:  
[www.amsa.com/bor](http://www.amsa.com/bor)
- ✖ Repayment and Career Information:  
[www.journeysonline.org](http://www.journeysonline.org)
- ✖ U.S. Department of Education:  
[www.ed.gov](http://www.ed.gov)
- ✖ Career Voyages  
[www.careervoyages.gov](http://www.careervoyages.gov)

## **RESOURCES AND FINAL MESSAGE**

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- Keep all Financial Aid information in one place for future reference.
- Additional websites for unbiased guidance:  
[www.bankrate.com](http://www.bankrate.com)  
[www.consumerreports.org](http://www.consumerreports.org)
- Don't be afraid to ask questions. Seek out your Financial Aid administrators

## MORE HELP

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✖ Consumer Credit Counseling Service

[www.cccsintl.org](http://www.cccsintl.org)

✖ [www.moneymanagement.org](http://www.moneymanagement.org)

✖ Jump\$tart Coalition for Personal Financial Literacy

[www.jumpstart.org](http://www.jumpstart.org)

✖ Student Loan Locators

[www.loanlocators.org](http://www.loanlocators.org)

✖ [www.nslds.ed.gov](http://www.nslds.ed.gov)

✖ A Student's Life (click on "After College")

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

✖ [www.mint.com](http://www.mint.com)

# QUESTIONS?

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- ✖ [www.bc.edu/successfulstart](http://www.bc.edu/successfulstart)
- ✖ [successfulstart@bc.edu](mailto:successfulstart@bc.edu)
- ✖ <http://twitter.com/#!/SuccessfulStart>