

chapter eleven

PROSPER

MANAGING YOUR MONEY
AND DEBTS WISELY



"Don't tell me where your priorities are. Show me where you spend your money, and I will tell you what they are." —James W. Frick



read this chapter?

Because you'll learn...

- To manage your money and avoid credit card trouble
- To identify the types of financial aid available to you
- How to protect yourself against identity theft

Because you'll be able to...

- Appraise your FICO score and keep it healthy
- Construct and use a budget
- Protect your credit cards and other vital information from identity theft

Scan and QUESTION

Take a few moments, **scan this chapter** and on page 274, write **five of your own questions** that you think will be important to your mastery of this material. You will also find five questions listed from your authors.

Example:

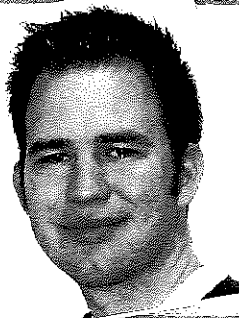
- ☒ What are the types of financial aid? (from page 254)
- ☒ How does a grant differ from a loan? (from page 254)

MyStudentSuccessLab

MyStudentSuccessLab is an online solution designed to help you acquire and develop (or hone) the skills you need to succeed. You will have access to peer-led video presentations and develop core skills through interactive exercises and projects.

How

COLLEGE CHANGED MY LIFE



Name: *Jeffrey Steele*
Institution: *Graduate! Wor-Wic Community College, Salisbury, MD*
Major: *Nursing*

At the age of 20, Jeff Steele found himself a college dropout and homeless. Growing up in rural Ohio, Jeff was a bright student who graduated from high school after his sophomore year and enrolled at a local university. However, he had a problem. "No one had explained to me how financial aid worked, and my parents couldn't afford my schooling," he laments. To meet his steep tuition bills, Jeff started working full-time as a busboy while also working part-time in his residence hall on campus.

For two years, Jeff managed to work these jobs while also attending school full-time. However, the stress and strain of this lifestyle started to take its toll. As Jeff puts it, "With the heavy curriculum and my overworked body, I didn't last long."

Before the start of his fifth semester in college, Jeff received a letter from the college that would change his life. "I could no longer attend until I paid my tuition," he remembers. "I was officially a college dropout."

Kicked out of his dorm room, Jeff found himself homeless, helpless, and severely depressed. He slept for two months at a local bus stop before saving up enough

money to get his own apartment. However, after a year he still felt powerless. "I knew I had to try and attempt my college education again," he remarks.

Seeking to gain access to another chance at higher education, Jeff enlisted in the United States Air Force. This was the first step toward bettering his life. "My military life gave me a chance to earn back my confidence and re-establish my strengths."

After serving a four-year tour of duty in Germany, Jeff relocated to Maryland to be closer to family. This is where Jeff made a decision that would change his life forever—he enrolled at Wor-Wic Community College with a major in nursing.

"In finding Wor-Wic Community College, I found the help I needed to reach my goals. The faculty and staff were quick to respond to my needs," Jeff says. He learned from the college's veterans coordinator that he could use his GI Bill benefits to pay for the costs of college. His nursing advisor helped to establish his career goals, and the director of student activities helped him gain leadership skills. Jeff became active on campus, helping to organize special events and even starting a new student organization.

"Wor-Wic not only gave me an education that I could afford, it has made me a better person all-around. The people of my community college have helped me gain back the dignity and confidence I lost after my first attempt at a college education," he says gratefully.



An interview conducted and written by Ryan Messatzia, Academic and Disabilities Counselor, Wor-Wic Community College, Salisbury, MD.

Jeff graduated from Wor-Wic Community College with honors and gained employment at a local hospital while also continuing to pursue a Bachelor's degree in Nursing. "My education has given me a purpose for my life," Jeff states, calling his current position "the perfect job."

Despite many trials and tribulations, Jeff persevered. And thanks to his college experience Jeff can now call himself a "college graduate" and a "registered nurse."

THINK
about it

1. Finances derailed Jeff's first attempt at a college education. What financial hurdles will you have to overcome to continue your studies? What plans are you making now to overcome potential financial hurdles you might face?
2. Jeff enlisted in the military to gain financial assistance for college. What avenues are you willing to pursue to acquire the money to complete your degree?

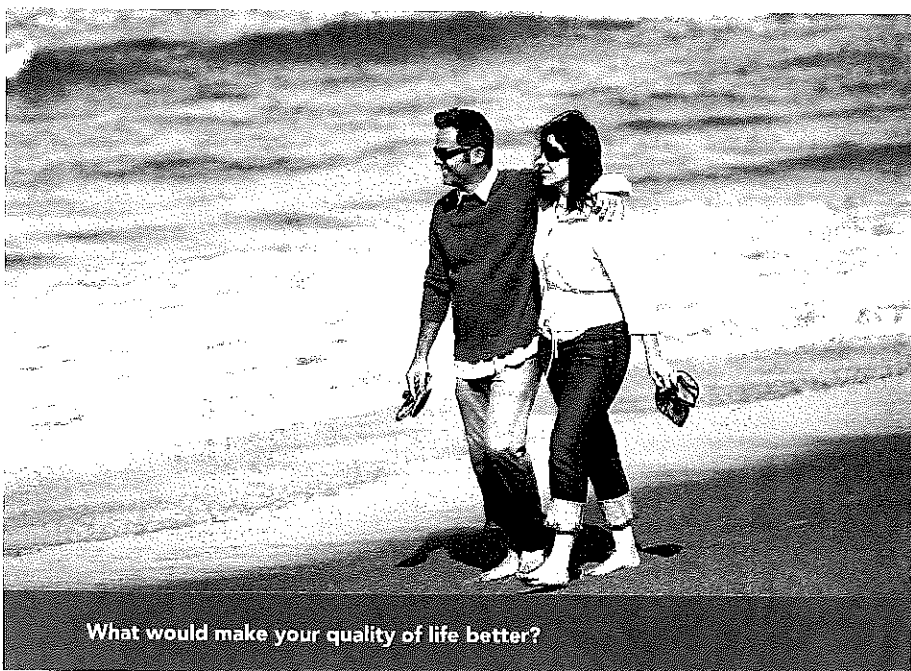
TAKING CONTROL OF YOUR FINANCES

How Can Financial Management Affect Your Future and Your Life?

You may be wondering why a chapter focusing on personal finance is found in a student success text. The answer is quite simple. We have known many students over the years who were academically capable, socially skilled, and managed their time and goals well. However, they were forced to leave their studies because they got into financial trouble. They did not know how to earn money, manage money, save money, or live within their means. This chapter is included to help you do all of these things so that you can get your education.

Most college students have had little to no training in managing finances. Many are ill prepared to make sound financial decisions and find themselves in trouble and have to leave school. It is not unusual for college graduates to accumulate significant college loan and credit card debt, as well as car loans and other financial obligations, by the time they graduate. We do not want this to happen to you. Learning to manage your finances and debts wisely will certainly be one of the most important lessons you learn—and one that you will need to carry with you throughout your life and career.

Financial literacy is understanding information about financial matters and being able to make appropriate decisions relative to financial areas, such as real estate, taxes, student loans, and retirement. One of the first steps in financial literacy is learning the difference between "*standard of living*" and "*quality of life*." According to Sytle and Tietje (2010), your standard of living is determined by tangible things, such as your ability to buy a nice car, own a fine home, wear designer clothes, eat in famous restaurants,



What would make your quality of life better?

and go out when you please. This would be considered a “high” standard of living. Conversely, if you live paycheck to paycheck, you have a “low” standard of living. However, there are many people who have a “low” standard of living, but have an extremely high quality of life. “There are probably people living off the land in a Central American jungle who are more satisfied and content than some millionaires living in Los Angeles. Money doesn’t necessarily buy you quality of life” (Syckle & Tietje, 2010).

Quality of life is determined by the things that do not cost a great deal of money, such as love, the affection of your children, your leisure activities, and the ability to enjoy quiet times with friends and family. Money *may* improve your quality of life, but there are many rich, unhappy, sad people.

The reason you need to know the difference is that many people think that the more money you make, the happier you are. This may be true if you also have the intangible things that improve your quality of life. But possessions alone seldom make anyone happy. You can live well and have a high quality of life on almost any budget if you know how to manage your finances properly, and that is what this chapter is all about—managing your money so that you can have the quality of life that you want and deserve.

PRACTICING DISCIPLINE AT THE RIGHT TIME

Can You Mind Your Own Business?

The time to learn to take care of your business and finances is right now so you can hit the ground running when you graduate. You might already be working in a full-time position with an opportunity to participate in a 401K program. Many people neglect to enroll because they don’t understand and they don’t want to appear ignorant by asking. You may feel that you simply can’t afford to enroll and allocate that money to a retirement fund. The truth? You really can’t afford not to enroll! Your future depends on it. Even if you are a typical student who is struggling to make ends meet and can’t invest right now, this is the time to prepare for what comes ahead. We highly encourage you to make up your mind that you are going to be financially secure and that you are going to master the keys to saving money.

Some important tips for preparing for the future *right now* include:

- Practice **delayed gratification**. This is the first key to personal wealth accumulation. Even though it will probably require changing your habits, learn to develop this habit now.
- Take a **personal finance course** as soon as possible. You will be able to put the information into practice much sooner if you take the course early in your college career.
- If you plan to operate any kind of business, **take accounting and tax law courses**. Even if you plan to run a dance studio or a physical fitness center, this applies to you.
- **Save your change every day**. You will be surprised how quickly it adds up. You can put it in savings or invest it. You may even need it to pay the rent one month.
- **Write down everything you spend**. Where can you cut costs? In what ways are you wasting money? At the end of this chapter, you will find a worksheet entitled, **Tracking Your Expenditures and Spending Habits**. Use this sheet to track all of your spending for three days, then analyze your habits and develop a change plan. You’ll be amazed at where your money goes.
- **Apply for every type of financial aid** possible to assist with your education. You may not be awarded every type, but every cent helps. The following section will help you with this.



How many credit cards do you currently have?
Do you use them wisely?

FINANCIAL AID

Is There Such a Thing as Pennies from Heaven?

Nearly two out of every three students are going into debt to go to college, owing an average of more than \$22,500. Today, student loan debt has passed \$1 *trillion*—more than all credit cards and auto loans combined. Senior citizens in America still owe over \$36 billion in student loan debt (Platt, 2012; Yerak, 2012). Chances are good that you have already borrowed money or might need to in the future. Therefore, understanding financial aid, scholarships, loans, and grants is very important as you make decisions that will impact you for a long time. If you have to borrow money to attend school, we think you should; on the other hand, we urge you to be very frugal—even stingy—when it comes to borrowing money. A day of reckoning will come, and for many people, it's like getting hit by a freight train when they realize what this debt means to them. Because they are relatively uninformed about personal finances, many people make bad financial decisions. Many students don't have a clue as to the impact of large student loans and other debts on their future well-being.

The most well-known sources of financial assistance are from federal and state governments. Federal and state financial aid programs have been in place for many years and are a staple of assistance for many college students. Figure 11.1 shows sources of aid.

Each year, over \$170 billion of financial aid is available. Not every school participates in every federal or state assistance program, so to determine which type of aid is available at your school, you need to contact the financial aid office—today!

One of the biggest mistakes students make when thinking about financial aid is forgetting about scholarships from private industry and social or civic organizations. Each year, millions of dollars are unclaimed because students do not know about these scholarships or where to find the necessary information. Speak with someone in your financial aid office regarding all types of scholarships.

Federal Financial Aid Types and Eligibility

The following are types of federal financial aid. See Figure 11.2 for eligibility requirements.

Pell Grant. This is a need-based grant awarded by the U.S. Government to qualified undergraduate students who have not been awarded a previous degree. Amounts vary based on need and costs and your status as a full- or part-time student. For the 2011–2012 school year, the full award amount was \$5,550. This figure changes yearly and also may change due to congressional mandates and spending.

Federal Supplemental Educational Opportunity Grant (FSEOG). This is a need-based grant awarded to institutions to allocate to students through their financial aid offices. The

Figure 11.1 Types of Aid

| Type | Description |
|--|--|
| Federal and state loans | Money that must be repaid with interest—usually beginning six months after your graduation date. |
| Federal and state grants | Money you do not have to repay—often need-based awards given on a first-come, first-served basis. |
| Scholarships (local, regional, and national) | Money acquired from public and private sources that does not have to be repaid. Often, scholarships are merit based. |
| Work study programs | Money earned while working on campus for your institution. This money does not have to be repaid. |

Figure 11.2 Student Eligibility for Federal Financial Aid

To receive aid from the major federal student aid programs, you must:

- Fill out a FAFSA on a yearly basis (Free Application for Federal Student Aid at www.fafsa.ed.gov)
- Have financial need, except for some loan programs
- Hold a high school diploma or GED, pass an independently administered test approved by the U.S. Department of Education, or meet the standards established by your state
- Be enrolled as a regular student working toward a degree or certificate in an eligible program; you may not receive aid for correspondence or telecommunications courses unless they are a part of an associate, bachelor, or graduate degree program
- Be a U.S. citizen
- Have a valid Social Security number
- Make satisfactory academic progress
- Sign a statement of educational purpose
- Sign a statement of updated information
- Register with the Selective Service, if required
- Some federal financial aid may be dependent on your not having a previous drug conviction.

Source: Adapted from *The Student Guide: Financial Aid from the U.S. Department of Education*. U.S. Dept. of Education, Washington, DC, 2011–2012.

amount varies between \$100 and \$4,000 per year, with an average award of about \$750. Priority is given to students who demonstrate exceptional need.

Academic Competitiveness Grant (ACG). The ACG became available in 2006 for first-year college students who graduated high school after January 1, 2006, and second-year students who graduated high school after January 1, 2005. Students must be eligible for the Pell Grant to be considered for the ACG. Grants are awarded to first-year students who completed a rigorous high school degree (as established by state and local educational agencies), and to second-year students who maintain a 3.0 GPA.

SMART Grant. The SMART Grant (or National Science and Mathematics Access to Retain Talent Grant) is awarded to at least half-time students during the third and fourth years of undergraduate study or fifth year of a five-year program. Students must also be eligible for the Pell Grant to receive a SMART Grant, and must be majoring in physical, life, or computer sciences, technology, an international language deemed necessary to national security, mathematics, or engineering. Students must maintain a 3.0 GPA in coursework required for the major.

Stafford Loan (formerly known as the Guaranteed Student Loan). The Stafford Direct Loan Program is a low-interest, *subsidized loan*. You must show need to qualify, and you must have submitted a FAFSA application to be eligible. The government pays the interest while you are in school, but you must be registered for at least half-time status. You begin repayments six months after you leave school.

Unsubsidized Stafford Loan. This Stafford Loan is a low-interest, *non-subsidized loan*. You *do not* have to show need to qualify. You are responsible for principle and interest payments beginning six months after graduation or six months after you drop below a half-time status. Interest begins accruing from the time the loan is disbursed to the school. Even though the government does not pay the interest, you can defer the interest and the payment until six months after you have left school.

FAFSA
FREE APPLICATION for FEDERAL STUDENT
Step One (Student): For questions 1-31, see the instructions.

Your full name (exactly as it appears on your Social Security card)

Your Social Security number

Have you allotted enough time in your schedule to fill out your financial aid application completely and accurately?

Federal PLUS Loan. This is a federally funded, but state administered, low-interest loan to qualified *parents of students* (biological and adopted parents qualify) in college. The student must be enrolled at least half time. Parents must pass a credit check and be U.S. citizens. Payments begin 60 days after the last loan payment. Students are responsible for repaying the loan if parents default.

Work Study. Work study is a federally funded, need-based program that pays students an hourly wage for working on (and sometimes off) campus. Students earn at least minimum wage.

Hope Scholarship Tax Credit (HSTC). According to FinAid.org, the HSTC provides a federal income tax credit based on the first \$4,000 in postsecondary education expenses paid by the taxpayer during the tax year. The amount of the credit is 100 percent of the first \$2,000 in qualified expenses, and 25 percent of the second \$2,000. You can apply for the HSTC for four years. The HSTC is subject to congressional changes.

Perkins Loan. This is a loan for students who demonstrate exceptional need in which the amount of money you can borrow is determined by the government and the availability of funds. The interest rate is relatively low and repayment begins nine months after you leave school or drop below half-time status. You must be enrolled at least half time and you can take up to 10 years to repay the loan.

Tips for Applying for Financial Aid

- You *must* complete a FAFSA (Free Application for Federal Student Aid) to be eligible to receive *any* federal or state assistance. *If you are considered a dependent, you and your parents* must apply for and obtain a PIN number to complete the FAFSA. Because much federal and state money is awarded on a first-come, first-serve basis, it is advisable to complete your application as soon after January 1 as possible—even if you have to use the previous year's tax returns and update your application later. Your college's financial aid office can assist you with this process. You can also log onto www.fafsa.ed.gov to learn more.
- **Do not miss a deadline.** There are *no* exceptions for making up deadlines for federal financial aid!
- *Read all instructions* before beginning the process, always fill out the application completely, and have someone proof your work.
- If documentation is required, submit it according to the instructions. Do not fail to do all that the application asks you to do.
- Never lie about your financial status.
- Begin the application process as soon as possible. Do not wait until the last minute. Some aid is given on a first-come, first-served basis. Income tax preparation time is usually financial aid application time.
- Talk to the financial aid officer at the institution you will attend. Person-to-person contact is always best. Never assume anything until you get it in writing.
- Take copies of fliers and brochures that are available from the financial aid office. Private companies and civic groups will often notify the financial aid office if they have funds available.
- Always apply for admission as well as financial aid. The college gives many awards to students who are already accepted.
- If you are running late with an application, find out if there is an electronic means of filing.
- Always keep a copy of your tax returns for each year.
- Apply for everything possible. You will get nothing if you do not apply.

See Figure 11.3 for some tips for applying for financial aid online.

Figure 11.3 Online Financial Aid Tip Guide

Consider the following online resources for learning more about and applying for different types of financial aid.

FAFSA (Free Application for Federal Student Aid)

The “must go to place” for beginning your financial aid process. You (and your parents if you are a dependent) must complete the FAFSA to receive **any** federal aid.

<http://www.fafsa.ed.gov>

Federal Student Aid Portal

The U.S. Government source for higher education funding.

<http://studentaid.ed.gov/PORTALSWebApp/students/english/index.jsp>

Finaid! The Smart Student™ Guide to Financial Aid

Great website for financial aid tools, advice, support, military aid, calculators, and various guidelines.

<http://www.finaid.org>

FASTWEB—Paying for School Just Got Easier

A site dedicated to helping you find scholarships. You fill out a profile and the website notifies you when a scholarship that matches your interests becomes available.

<http://www.fastweb.com>

Pay for College

This site offers assistance in finding different types of aid, college costs, loans, and financing.

<http://www.collegeboard.com/student/pay>

ed.gov (The United States Department of Education)

A website dedicated to helping you find various types of aid and helping you understand payment options and guidelines.

<http://www2.ed.gov/finaid/landing.jhtml?src=In>

Financial Aid Finder—Student Scholarship Search

A website/blog that continually tracks and posts available scholarships and information. Click on “Find a Scholarship.”

<http://www.financialaidfinder.com/student-scholarship-search/>

Financial Aid Info

A website clearinghouse that guides you to many different financial aid websites.

<http://www.financialaidinfo.org/useful-student-aid-websites.aspx>

STUDENT LOANS

A Day of Reckoning Will Come—Will You Be Ready?

The high cost of college makes tuition out of reach for many families. For many students, the only way they can attend college is with student loans. If this is the only way you can go to college, borrow the money—but borrow no more than you absolutely must. Try not to borrow anything but tuition and perhaps books and supplies. Get a job, budget, cut out extras, work in the summers, attend college via a cooperative program, enroll in online courses, live at home or find a roommate—do everything possible not to borrow more money than you absolutely must.

Many students are finding it necessary to extend their student loans over a period of 30 years just to keep their heads above water; of course, if one does that, the interest paid is

also higher. For example, a student who takes 30 years to pay off a \$20,000 loan at 6.8 percent will pay about \$27,000 in interest plus the principle (for a total of \$47,000), compared to \$7,619 of interest (for a total of \$27,619) on a loan paid off in 10 years (Block, 2006). You will have to repay the money that you have borrowed. Period! ***Bankruptcy will not even relieve you of this debt*** because student loans are not subject to bankruptcy laws; so again, don't borrow any money you don't absolutely need. Consider the following examples in Figure 11.4.

Because of the ***College Cost Reduction and Access Act of 2007***, your federal student loan may be forgiven after 10 years of full-time employment in ***public service***, such as the military, law enforcement, public health, public education, or social work, to name a few. However, you must have made 120 payments as a part of the Direct Loan Program. Only payments made after October 1, 2007, count toward the required 120 monthly payments.

Figure 11.4 Total Interest

| Amount of Money Borrowed | Your Interest Rate (average) | Total Years to Repay (20 years is the average) | Your Monthly Payment | Total Interest Paid (your cost to borrow the money) |
|--------------------------|------------------------------|--|----------------------|---|
| \$ 5,000 | 3.5% | 10 | \$ 49.44 | \$ 932.80 |
| | | 20 | \$ 29.00 | \$ 1960.00 |
| | | 30 | \$ 22.45 | \$ 3082.00 |
| \$10,000 | 3.5% | 10 | \$ 98.89 | \$ 1866.80 |
| | | 20 | \$ 58.00 | \$ 3920.00 |
| | | 30 | \$ 44.90 | \$ 6164.00 |
| \$15,000 | 3.5% | 10 | \$148.33 | \$ 2799.60 |
| | | 20 | \$ 86.99 | \$ 5877.60 |
| | | 30 | \$ 67.36 | \$ 9249.60 |
| \$20,000 | 3.5% | 10 | \$197.77 | \$ 3732.40 |
| | | 20 | \$115.99 | \$ 7837.60 |
| | | 30 | \$ 89.81 | \$12331.60 |
| \$30,000 | 3.5% | 10 | \$296.66 | \$ 5599.20 |
| | | 20 | \$173.99 | \$11757.60 |
| | | 30 | \$134.71 | \$18495.60 |

YOUR CREDIT HISTORY

Do You Know the Score?

Many students don't even know they have a credit score, yet this score is the single most important factor that will determine if you get approved for a mortgage, car loan, credit card, insurance, and so on. Furthermore, if you get approved, this credit score will determine what rate of interest you will have to pay. You can order one free credit report online by accessing the website www.annualcreditreport.com. There are also sites where you can access your credit score such as www.freecreditscore.com and www.freescoreonline.com. Some websites may not charge you for your credit *report* but they will charge you for your credit *score*. The website www.creditkarma.com is a very easy and totally free site.

Range of Scores and What FICO Means for You

This information may seem trivial right now, and you might not want to be bothered with more information, but the truth is, you must pay attention to this because your FICO score has long-lasting implications for almost everything you want to do. The sooner you understand the importance of this score and take steps to keep it healthy, the better off you will be.

Your credit score is referred to as a FICO score. FICO is the acronym for **Fair Issac Corporation**, the company that created the widely used credit score model. This score is calculated using information from your credit history and files. The FICO score is the reason it matters if you accumulate large debts, if you go over your credit card limits, or if you are late with payments—these offenses stick with you and are not easily changed. Based on this score, you can be denied credit, pay a lower or higher interest rate, be required to provide extensive asset information in order to even get credit, or sail right through when you seek a loan.

FICO scores range from 300 to 850. A good score is considered 720 or above. The lower your FICO score, the higher the interest rate you will have to pay because you will be considered a poor risk. So what's the big deal about a few points? Study the chart in Figure 11.5 to see how important your FICO score is when you start to finance a house or seek credit for other reasons.

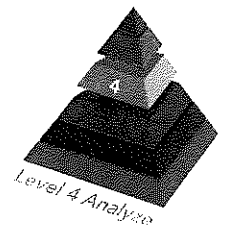
"Just about every financial move you make for the rest of your life will be somehow linked to your FICO score."

—Suzie Orman

Figure 11.5 The Impact of Your FICO Score on Purchasing A House

Consider the following interest rates based on varying FICO scores. The following figures are based on purchasing a new home for \$150,000, with a 30 year, fixed interest loan.

| FICO Score Range (Ranging from best to worst) | Average Interest Rate you can expect to pay | Estimated Monthly payment | Estimated TOTAL Interest paid |
|---|---|------------------------------|----------------------------------|
| 760-850 | 5.78% | \$ 879.00 | \$166,440. |
| 799-759 | 6.00% | \$ 900.00 | \$174,000. |
| 660-699 | 6.28% | \$ 927.00 | \$183,720. |
| 620-659 | 7.09% | \$1008.00 | \$212,880. |
| 580-619 | 8.58% | \$1162.00 | \$268,320. |
| 500-579 | 9.49% | \$1261.00 | \$303,960. |



Using the table above, analyze the data.

What is the **monthly payment** difference for someone with a 660–699 FICO score and a 760–850 score? _____ \$ _____

What is the difference **in interest paid** for someone who has a 660–699 FICO score and someone who has a 760–850 score? _____ \$ _____

Using your current FICO Score, what would **your monthly payment** be? _____ \$ _____

Using your current FICO Score, what would **your total interest payment** be? _____ \$ _____