Consolidation Facts to Consider

- The terms of your loan are dependent on your total loan debt. Consolidation loans are paid off in 12 years to 30 years based on your total outstanding debt. You may always select a term lower than the one you qualify for.
- Make sure that the consolidation provider has a solid history in the student loan business and a proven track record of quality customer service.
- Be sure to ask the consolidator if they offer life-of-loan servicing. Some organizations offer to consolidate your loans and then will sell your loans to another entity. Sometimes benefits and/or incentives do not transfer if the loans are sold.
- Also, compare benefits and incentives to ensure you're getting a company who is working in your best interest.
- Consider the added interest costs that may be incurred. Longer repayment terms may seem like an easy fix to give you more spending money each month, but the additional interest costs you will pay will really add up over time.
- Also ask about paying extra each month and/or paying the loan off earlier than scheduled. Some companies have a pre-payment penalty.
- Graduate. Make sure that you will not need to take more loans to complete additional degrees. Remember, the bulk of your loan debt will probably occur during graduate school.
- Consider spousal consolidation very carefully. When married partners consolidate student loans and then divorce, both are still liable for the entire debt. The marriage may split, but the joint responsibility to repay the consolidation loan won't.
- Get the facts about deferments. Stafford and Perkins Loan programs have some deferment, forbearance and loan forgiveness provisions that consolidation loans do NOT have.
- Get all the facts about the benefits you may be giving up if you decide to consolidate.

Financial Literacy

Managing your credit

Each of us has goals and dreams for our future, our lives and ourselves. One item that can make achieving our goals and dreams easier is being an educated consumer about credit and having good credit. How can this knowledge be helpful for a student? Knowing your debt or debt load, your credit score (FICO), and managing your credit can assist with various new chapters in your life after graduation such as buying a car, purchasing a home, getting married or planning to have a child.

Debt Load

What is debt load?

Debt load is a term that is used to describe a consumer's amount of debt. It is often used to understand if you are carrying a "safe" amount of credit. Creditors look at a debt/income ratio, comparing your income with your outgo to analyze whether you have too much debt. The debt/income ratio is figured monthly and reveals either how good or bad your financial picture is on a day-to-day basis.

You can figure this ratio for yourself. Add all of your non-housing monthly payments, except for your utilities and taxes. Then compare that total with your total gross annual wages divided by 12. If you don't have fixed monthly payments on revolving debts such as credit cards, you can estimate your monthly payments at 4% of the total amount you owe. When you divide your monthly debt payments by your total monthly income, you will get your monthly non-housing debt/income ratio. It is usually expressed as a percentage, so move the decimal point two places to the right.

Example

Gross monthly income is $2,000

Monthly debt is $500 (credit card payments, gasoline bills and car payments, student loans)

$500/$2000 = 25%

Your debt/income ratio is 25%

Rule of thumb

If your non-housing debt is 10% or less, you're in great financial fitness. If your non-housing debt is between 10% - 20%, then you'll probably be able to get credit, but as you approach 20%, you're getting too high!

There have been many attempts to devise formulas for setting limits on the amount of real estate debt one should carry. One rule of thumb is 2 (or 2½ to 3) times your annual income. If the annual household income is $70,000, a mortgage company might loan up to $210,000, provided the house is worth the money and the other credit factors are satisfactory. However, be careful. Just because a lender may be willing to extend credit doesn't mean that you should necessarily borrow that amount. You should also factor in your own specific fixed and variable expenses to determine your own ability to pay. How much you spend on real estate may depend on what area of the country you live in. Remember, if you're high on the real estate debt, you may want to be lower on the debt/income ratio to compensate.

Card Options

Credit cards vs. debit cards

Deciding when to use your debit card and when to use your credit card isn't a frivolous decision. A credit card is a "buy-now, pay-later" tool. A debit card is a "buy-now, pay-now" tool. Both cards can play major roles in your money-management plan.

A debit card is linked to your checking and/or savings accounts – in banking terms, deposit accounts. When you use a debit card, money is subtracted from your deposit account, generally a checking account. In contrast, a credit card is an unsecured loan that a financial institution provides to you as a payment convenience. Using a credit card means that you intend to repay the amount – plus interest if you do not repay the balance in full each month.

Advantages and disadvantages

Credit has both advantages and disadvantages. By using it wisely, you can capitalize on the advantages and reduce the disadvantages.

Advantages

- Ability to buy needed items now
- Don't have to carry cash
- Creates a record of purchases
- More convenient than writing checks
- Consolidates bills into one payment

Disadvantages

- Higher cost of items (interest and finance charges)
- May include additional fees also
- Financial difficulties may arise if you lose track of how much you spend each month
- Provides an avenue for increased impulse buying

Three basic types of credit

Single-payment credit

Items and services are paid for in a single payment, within a given time period after the purchase. Interest is usually not charged. Examples include utility companies, medical services and some retail businesses.

Installment credit

Merchandise and services are paid in two or more regularly scheduled payments of a set amount. Interest is included. Examples include some retail businesses, such as car and appliance dealers, as well as commercial banks, consumer finance companies, savings and loans, and credit unions. Money may also be loaned for a special purpose, with the consumer agreeing to repay the debt in two or more regularly scheduled payments.

Revolving credit

Many items can be bought using this plan as long as the total amount does not go over the credit user's assigned dollar limit. Repayment is made at regular time intervals for any amount at or above the minimum required amount. Interest is charged on the remaining balance. Examples include retail stores credit cards and financial institutions that issue credit cards.

About Credit Reports

Credit Reporting Agencies

Credit reporting agencies maintain files on millions of borrowers. Lenders making credit decisions buy credit reports on their prospects, applicants and customers from the credit reporting agencies.

Your report details your credit history as it has been reported to the credit-reporting agency by lenders who have extended credit to you. Your credit report lists what types of credit you use, the length of time your accounts have been open, and whether you've paid your bills on time. It tells lenders how much credit you've used and whether you're seeking new sources of credit. It gives lenders a broader view of your credit history than do other data sources, such as a bank's own customer data.

Creating Your Credit Report

Your credit report does not really exist until you or a lender asks for it. It is then compiled by the credit reporting agency based on the information stored in that agency's file. This information is supplied by lenders, by you and by court records.

Tens of thousands of credit grantors – retailers, credit card issuers, banks, finance companies, credit unions, etc. – send updates to each of the credit reporting agencies, usually once a month. These updates include information about how their customers use and pay their accounts.

Your credit report reveals many aspects of your borrowing activities. All pieces of information should be considered in relationship to other pieces of information.

Credit Score

- The importance of any factor depends on the overall information in your credit report. For some people, a given factor may be more important than for someone else with a different credit history. In addition, as the information in your credit report changes, so does the importance of any factor in determining your score. Therefore, it's impossible to measure the exact impact of a single factor without looking at your entire report – even the levels of importance shown in the diagram below are for the general population, and will be different for different credit profiles.

- Your FICO® score only looks at information in your credit report. Lenders often look at other information when making a credit decision, however, including your income, how long you have worked at your present job and what type of credit you are requesting.

- Your score considers both positive and negative information in your credit report. Late payments will lower your score, but establishing or re-establishing a good track record of making payments on time will tend to raise your score.

A few items to consider:

- 35% of your score is based on payment history
- 30% of your score is based on amount owed
- 15% of your score is based on length of credit
- 10% of your score is based on type of credit

What is Not in Your Credit Score

- **Your race, color, religion, national origin, sex and marital status.**
  US law prohibits credit scoring from considering these factors, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.

- **Your age.**
  Other types of scores may consider your age, but FICO® scores don't.

- **Your salary, occupation, title, employer, date employed or employment history.**
  Lenders may consider this information however, as may other types of scores.

- **Where you live.**
- **Any interest rate being charged on a particular credit card or other account.**
- **Any items reported as child/family support obligations or rental agreements.**
- **Certain types of inquiries (requests for your credit report).**
  The score does not count "consumer-initiated" inquiries – requests you have made for your credit report in order to check it. It also does not count "promotional inquiries" – requests made by lenders in order to make you a "pre-approved" credit offer – or "administrative inquiries" – requests made by lenders to review your account with them. Requests that are marked as coming from employers are not counted either.

- **Any information not found in your credit report.**
- **Any information that is not proven to be predictive of future credit performance.**
- **Whether or not you are participating in a credit counseling of any kind.**

As a consumer you need to know your credit history and score. Under Federal Law, you have the right to receive a free copy of your report once every 12 months from each of the three nationwide consumer-reporting companies (Trans Union, Equifax and Experian). You can order your free annual credit report:

- **On-line at www.annualcreditreport.com**
  or
- **By calling 1-877-322-8228**

It is important to check your report on a periodic basis as part of your ongoing actions to protect yourself from identity theft. This will allow you to validate the accuracy of your information and protect against potential fraudulent activity on your accounts. If you notice any inconsistencies on your report, you only need to notify one agency and they will share the information with the other two credit bureaus.

You can contact each of the three major credit bureaus:

Equifax
To report fraud, call 1-800-525-6285 or write
P.O. Box 740241, Atlanta, GA 30374-0241.
For the hearing impaired, call 1-800-255-0056 and ask the operator to call the Auto Disclosure Line at 1-800-685-1111 to request a copy of your report.

Experian
To report fraud, call 1-888-EXPERIAN (397-3742) or write
P.O. Box 9530, Allen TX 75013
TDD: 1-800-972-0322

Trans Union
To report fraud, call 1-800-680-7289 or write
Fraud Victim Assistance Division, P.O. Box 6790,
Fullerton, CA 92634
TDD: 1-877-553-7803

Money. It is an important and challenging concept, however, if we understand our debt, credit, and credit score, we become better-educated consumers for the future.

* *Sources:*
www.mtb.com - M&T Bank Web site
www.practicalmoneyskills.com - VISA Web site
The First Marblehead Corporation

Direct to Consumer Loans and Marketing Efforts To Be Wary Of

- **It is important to do a thorough investigation of any loans or lenders** that you are considering for alternative loan financing.
- **Be aware that many lenders directly market to students** via direct mail, phone calls, television ads, radio ads and online promotions. These loans may have high fees and high interest rates that come with a high price tag for funding your college education.
- Be suspect of any offer or mailing that looks like it is coming from the Federal Government, as these are usually private companies. **The Federal Government doesn't send promotional mailings.**
- Make sure you **exhaust all federal loan options** before you take out a private/alternative loan. Federally-funded loans are low-cost, fixed-interest rate loans.
- **Check with the Better Business Bureau** for any complaints registered against the loan company you are considering taking a loan with.
- **Be a smart consumer and investigate several loan options.** Just because you found them on the Web or the company has paid for a TV commercial does not mean they are the best lender to take a loan with. It means they paid for the advertising.
- Be wary of companies offering gift cards, sweepstakes, referral fees, or fake checks to get you take out their student loan. **Usually if it sounds too good to be true, it is.**
- **Be aware of the tax implications for taking alternative loans that are not certified by the Financial Aid Office.** Interest expenses for student loans are deductible when used for educational purposes, which are defined as expenses that are certified under the cost-of-attendance formula used by Financial Aid Office. The interest paid on a non-certified, private loan is not tax-deductible.

Planned Spending

Without taking the time to make a budget, could this be you?

"Sam" is about to graduate from college with a BA in accounting. He has already secured a job with an entry-level wage at a large corporation. Although he'll begin with a starting salary of $60,000, Sam's paycheck will only cover his rent, car payment, student loans and credit cards. Sam plans to rely on his credit cards to pay for gas, groceries, or anything else he wants to buy. Forget savings! He lives in a very small studio apartment in a dangerous part of town, since that is all he can afford. The sad thing is that Sam will be looking forward to making his student loan payments for the next ten years. That's a short time compared to twenty-three years for his credit card payments if he continues to pay at his current rate.

You don't have time NOT to create a budget!

One of the most important actions you can take now is to create a budget. It's also important to talk to those around you who have something to do with your budget – your parents, for instance. Creating a budget is really pretty simple. You write down your income on one side and your expenses on the other. Think about it. What income do you have coming in? Do you have a lump sum per semester? If so, divide that by the number of months in the semester. Do you have weekly or bi-weekly income from work study or an off-campus job? (Keep in mind that your work study check is determined by the number of hours you actually work) Are you lucky enough to get a regular deposit from home? Did you work summer or winter break? Do you pay yourself monthly from that savings? Whatever your situation – determine your income.

Next, write down your expenses. Some you will know. Do you have a car payment? If so, then you will have gas expense and maintenance, and perhaps you are also responsible for car insurance. Remember to divide those yearly expenses by 12 so you have a monthly expense. Do you have a credit card payment? (The best way to manage a credit card is to pay the balance in full each month; if you can't do that, at least pay more than the minimum.) Although "freshmen ten" has usually referred to the extra ten pounds the average college freshman gains during their first year, it now unfortunately can refer to credit card debt! Just because you are offered a credit card doesn't mean you have to take it. Next, you need to figure some weekly amount for "fun." Keep in mind the goal is to keep your expenses reasonable, yet be realistic. And in the end, a good budget includes a line for savings. The difference between being financial healthy and drowning in debt is a budget that includes regular and consistent savings! Make it an automatic deposit from your paycheck, or an automatic transfer from your checking to your savings account each month. At the least, save your loose change on a regular basis and each semester roll those coins and make a deposit into your savings account. Remember, consistency is the important action!

The following guidelines should be used to review the amount of debt you can comfortably handle compared to your monthly income.

10-15%	Well within acceptable guidelines
15-20%	Caution! Do not assume additional debt
Over 20%	Danger! Enlist help in reviewing your circumstances. Discuss with your financial aid counselor or call Consumer Credit Counseling Service

Consider "Pat," who has a monthly income of $1000 and a car payment of $150. Her credit card payment of $50 puts her into the Caution range without considering her other monthly expenses!

Try this generic budget to get you started. If there is one thing for you to take away from this section in SUNY Fredonia's Financial Aid Guide, it's that families need to talk about a budget now – at the beginning of your college days. Don't be a victim of overwhelming debt because you made foolish decisions on your own.

Monthly income while in school

	______
	______
	______
Income	$ ______

Monthly expenses while in school

Car payment	______
Gas	______
Car insurance	______
Coffee, soda, snacks	______
Weekend entertainment	______
Shopping	______
Personal supplies	______
Computer supplies	______
Cell phone bill	______
Savings	______
Interest payment on Unsubsidized Stafford*	______
Expenses	$ ______

*Paying interest while you are in school is a smart move!

Interest Payment on Unsubsidized Stafford Loan

Unsubsidized Stafford Loan Amount	Monthly Interest Payment While In School and Grace*	Total Savings with Interest Payments**
$1,500	$ 7.74	$ 49.11
$1,800	$ 9.29	$ 73.78
$2,000	$10.32	$ 93.91
$2,500	$12.90	$ 159.29
$3,000	$15.48	$ 250.97
$3,400	$17.55	$ 348.97
$4,000	$20.64	$1,000.28

*Assumes two-year in-school period and six-month grace period with a fixed-interest rate of 6.8%.

**Based on a ten-year repayment term and minimum monthly payment of $50.

Controlling your expenses over the next four years will put you in a much better place to step out on your own! Review your budget annually and make adjustments before they get too big to tackle. Attend financial literacy sessions on campus that deal with credit cards, credit scoring and identity theft. And don't miss the entrance and exit counseling sessions on student loans. You'll learn repayment options and learn what to expect as monthly payments.

Only borrow student loans up to the amount you need – not the maximum you are eligible for! Remember, the purpose of student loans is to pay for education, not to pay for personal expenses. You may find you are eligible for more student loan funds than you really need. "Jason" found that after his loan funds were applied electronically to his college bill, he was given a refund. Rather than apply the refund against his loans or, better yet, return some of the loan funds, Jason used the extra money to pay for his buddies' drinks at a local bar, football tickets to a Bills game, dinner out with his girlfriend and a few road trips. Then he looked forward to the spring semester when he planned to use his expected refund for a trip during spring break. Not a wise decision. As a recent college graduate, Jason wished he had been more financially literate. Don't be like Jason. You'll be better prepared to live well when you graduate.

Identify Theft

Source: Federal Trade Commission Overview

Identity theft occurs when someone uses your personally identifying information, like your name, Social Security number, or credit card number without your permission to commit fraud or other crimes.

Identity theft is serious. While some identity theft victims can resolve their problems quickly, others spend hundreds of dollars and many days repairing damage to their good name and credit record. Some consumers victimized by identity theft may lose out on job opportunities, or be denied loans for education, housing or cars because of negative information on their credit reports. In rare cases, they may even be arrested for crimes they did not commit.

Your identity information can be obtained in many ways, including:

1. **Dumpster Diving.** They rummage through trash looking for bills or other paper with your personal information on it.
2. **Skimming.** They steal credit/debit card numbers by using a special storage device when processing your card.
3. **Phishing.** They pretend to be financial institutions or companies and send spam or pop-up messages to get you to reveal your personal information.
4. **Changing Your Address.** They divert your billing statements to another location by completing a change of address form.
5. **Old-Fashioned Stealing.** They steal wallets and purses; mail, including bank and credit card statements; pre-approved credit offers; and new checks or tax information. They steal personnel records, or bribe employees who have access.
6. **Pretexting.** They use false pretenses to obtain your personal information from financial institutions, telephone companies, and other sources.

Financial Fast Facts

- 80% of graduating college seniors have credit card debt – before they have a job!
- Stats show that people spend almost 20% more when using credit instead of cash!
- 83% of college students have credit cards – most students have at least 3 credit cards.
- 56% of senior students have at least 4 or more credit cards.
- If you save $30 a week for 5 years, you will save $7,800.

If you suspect your identity has been stolen:

Take the following four steps as soon as possible, and keep a record with the details of your conversations and copies of all correspondence.

1. Place a fraud alert on your credit reports, and review your credit reports.

Fraud alerts can help prevent an identity thief from opening any more accounts in your name. Contact the toll-free fraud number of any of the three consumer reporting companies below to place a fraud alert on your credit report. You only need to contact one of the three companies to place an alert. The company you call is required to contact the other two, which will place an alert on their versions of your report, too. If you do not receive a confirmation from a company, you should contact that company directly to place a fraud alert.

Equifax: 1-800-525-6285; www.equifax.com;
P.O. Box 740241, Atlanta, GA 30374-0241

Experian: 1-888-EXPERIAN (397-3742);
www.experian.com; P.O. Box 9532, Allen, TX 75013

TransUnion: 1-800-680-7289; www.transunion.com;
Fraud Victim Assistance Division, P.O. Box 6790,
Fullerton, CA 92834-6790

2. Close the accounts that you know, or believe, have been tampered with or opened fraudulently.

Call and speak with someone in the security or fraud department of each company. Follow up in writing, and include copies (NOT originals) of supporting documents. It's important to notify credit card companies and banks in writing. Send your letters by certified mail, return receipt requested, so you can document what the company received and when. Keep a file of your correspondence and enclosures.

3. File a complaint with the Federal Trade Commission.

You can file a complaint with the FTC using the online complaint form; or call the FTC's Identity Theft Hotline, toll-free: 1-877-ID-THEFT (438-4338); TTY: 1-866-653-4261; or write Identity Theft Clearinghouse, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580. Be sure to call the Hotline to update your complaint if you have any additional information or problems.

4. File a report with your local police or the police in the community where the identity theft took place.

Call your local police department and tell them that you want to file a report about your identity theft. Ask them if you can file the report in person. If you cannot, ask if you can file a report over the Internet or telephone.

Protect your identity

When it comes to identity theft, you can't entirely control whether you will become a victim. But there are certain steps you can take to minimize recurrences.

- Guard your Social Security number; protect your PINs, passwords and account numbers.
- Secure personal information in your home, especially if you have roommates.
- Don't give out personal information on the phone, through the mail, or on the Internet unless you've initiated the contact or are sure you know who you're dealing with.
- Treat your mail and trash carefully; shred documents and call 1-888-5-Opt-Out.
- Don't carry your SSN card; leave it in a secure place.
- Monitor your account statements and credit report.
- Cancel unused credit cards.
- Be careful of phishing.

Fast Facts

The FTC estimates that as many as 9 million Americans have their identities stolen each year. Unfortunately, many consumers learn their identity has been stolen after some damage has been done.

Identity Theft Hotline: 1-877-IDTHEFT