

**STOCKTON CENTER FOR  
ECONOMIC & FINANCIAL LITERACY**  
THE RICHARD STOCKTON COLLEGE OF NEW JERSEY



**UNDERSTANDING CONSUMER  
& STUDENT DEBT  
FOR CARE PROGRAM  
NOVEMBER 7, 2013**

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# Types of Credit



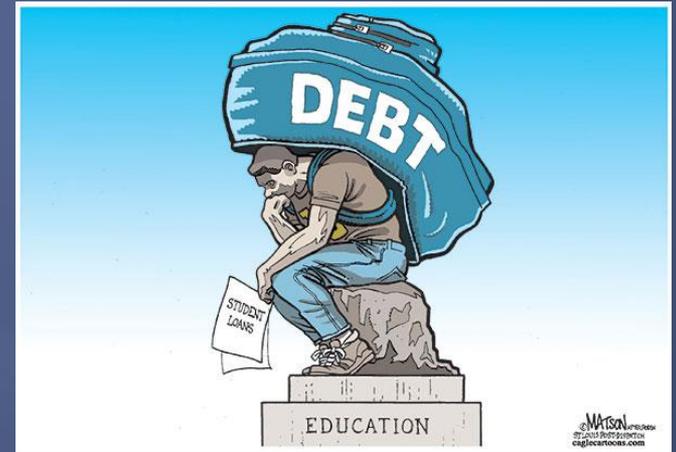
- ▣ Closed-end credit/installment credit
  - One time loans, scheduled payments with an end date
  - Can be “secured”, backed by property or cash
  - Examples: mortgage, car loan
- ▣ Open-end credit, unsecured
  - Based on ability to pay; no collateral
  - Use as needed until line of credit max reached
  - Examples: revolving credit card (MasterCard, Visa), (open-end) Amex card, **Student Loans!**

# Costs of Credit



- ▣ Average credit card holder has 4 c
- ▣ To borrow, it costs:
  - Annual fee
  - Annual Percentage Rate (APR)
  - Late fees, etc.
- ▣ Compound interest: interest on top of interest
  - To pay off \$500 iPad at 18% interest with making the minimum monthly payment (\$15) →
    - 47 months and \$198.34 in interest
  - <http://www.bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx>
- ▣ New: CARD Act of 2009
  - Age > 21; or proof of employment at age 18; or co-signer

# Student Loan Debt: Increasing at an Increasing Rate



- ▣ Exceeds \$1 trillion, now more than credit card debt
- ▣ Across all colleges, Class of 2011 (undergrads) averaged \$26,650 in undergraduate debt
  - NJ is 10<sup>th</sup> highest in US; average = \$27,610
  - 73% of Stockton grads with student loan debt
  - Stockton average = \$32,255
  - Stories of undergrads with debt approaching \$100,000!
  - Stockton on the list of the highest 20 average student loan indebtedness among public colleges/universities in the US

# Student Loans: Basics, Interest Rates

- William D. Ford direct loans from U.S. Department of Education; see <http://www.direct.ed.gov/index.html>

Loan	Who borrows?	Current interest rate (expires 6/30/2013)
<i>Subsidized</i> , based on need (from FAFSA)	Undergraduate student	3.4%
<i>Unsubsidized</i> (interest accrues at disbursement)	Graduate students; All students	6.8%
PLUS loan	Parent or graduate student	7.9%
[Can consolidate these federal loans before repayment]		
Private loans (e.g. Sallie Mae, Citibank, etc.)	Student; can get co-signer	Linked to LIBOR; higher%

Loan Limits (UG)	Dependent student	Dependent student	Independent student	Independent student
	Maximum	Maximum subsidized	Maximum	Maximum subsidized
1 <sup>st</sup> year UG	\$5,500	\$3,500	\$9,500	\$3,500
2 <sup>nd</sup> year UG	\$6,500	\$4,500	\$10,500	\$4,500
3 <sup>rd</sup> year UG	\$7,500	\$5,500	\$12,500	\$5,500
<u>4<sup>th</sup> year UG</u>	<u>\$7,500</u>	<u>\$5,500</u>	<u>\$12,500</u>	<u>\$5,500</u>
Aggregate UG	\$31,000	\$23,000	\$57,500	\$23,000
PLUS Loan	Can borrow up	to cost of	attendance	minus any aid
Graduate or professional	N/A	N/A	\$20,500 (\$8,500/yr); \$138,500 aggregate (UG + G)	<b>\$0 [new]</b>
<i>Private loans</i>	<i>On top of this!</i>		<i>On top of this!</i>	

# National Data: Average Student Loan Indebtedness for Schools You Are Considering

- ❑ Consult a reliable, independent source for data on student loans averages
- ❑ The best source is Project on Student Debt at [http://www.projectonstudentdebt.org/state\\_by\\_state-data.php](http://www.projectonstudentdebt.org/state_by_state-data.php)
- ❑ Project on Student Debt publishes data for college seniors who entered as freshmen (undergraduates) who have graduated from schools each year, e.g. Class of 2011
- ❑ Unfortunately, there is no national dataset on debt for graduate students

# Use Credit Wisely: How Much is Too Much?



- ❑ The average car price for a new car in the US is \$28,000
- ❑ A 48 month loan at 3% interest with \$1,000 down is \$606 per month
- ❑ The average car insurance for someone under the age of 25 in NJ is \$2,444/year or \$203.66/month
- ❑ The car payment with insurance would be \$809.66 per month (not including gas and maintenance)

# Common Sense Guide to Budgeting for a new College Graduate

Expense	How much should it be?	Notes
Rent	No more than 28 - 36% of net monthly income	Net income = (Gross - all payroll deductions)
All Debt (car loan, student loan debt, & credit cards)	No more than 20% of net monthly income	
➤ Of all debt, that portion for student loans only	No more than 10% of net monthly income; Or no more than 7-8% of your gross income	So this means half of your debt should be student loans and half should be everything else
➤ Alternate rule of thumb for aggregate student loan debt	<b>Do not borrow more than you expect to earn for your 1<sup>st</sup> year's salary after graduation</b>	

# Research Jobs and Salaries

- ▣ [O\\*NET](#) is the best website that aggregates information from multiple Bureau of Labor Statistics publications and surveys
  - Search for jobs “in demand” over the next 10-20 years
  - Search for jobs by keyword
  - Search for jobs based on your interest and/or skills
  - Learn what tasks and duties are associated with various jobs
  - Find out median salary for jobs in the U.S. and also in your state
- ▣ Let's try it

# Paying Back Your Debt

- ▣ Your federal direct loans were either subsidized or unsubsidized.
  - With unsubsidized loans, the interest on the loan began to build from Day #1, the day you took out the loan. This means you will owe more than you borrowed on graduation day.
- ▣ Federal direct loans (subsidized, unsubsidized, PLUS) have a grace period of 6 months after graduation. This means that your 1<sup>st</sup> payment is deferred (postponed) for that time.
- ▣ Students who drop out (do not graduate) still need to repay their loans after the grace period expires.

# Student Loan Repayment Options (Direct Loans)

- ▣ Standard Repayment, up to 10 years:
  - A fixed \$ each month (at least \$50) until your loans are paid in full
- ▣ Graduated payment, up to 10 years
  - Starts low & increases every 2 years
  - No single payment will be more than 3X greater than any other payment
- ▣ Extended Repayment:
  - If you owe >\$30,000, you can have 25 years to pay
  - 2 payment options: fixed payment or graduated payment
- ▣ The longer you are in repayment, the more interest you will pay

# Income Contingent Repayment

- ❑ Not available for parent PLUS Loans
- ❑ Each year, payments are based on Adjusted Gross Income (AGI), your spouse's income if you're married, family size, and the total amount of *direct loan debt* you owe
- ❑ Up to 25 years

# Deferment (Direct Loans)

- ▣ Deferment: a postponement of payment on a loan, during which interest does not accrue on a *subsidized* loan
- ▣ You may qualify if you are:
  - Enrolled at least half-time in an eligible post-secondary school, studying full-time in graduate school, or in an approved disability rehabilitation program
  - Unemployment or meet U.S. Department of Education rules for economic hardship (limited to 3 years)
  - You may also be able to defer if you are on qualifying active duty service in the U.S. Armed Forces or National Guard
- ▣ Complete a deferment request to apply
- ▣ If your loan is in “default”, you are not eligible for deferment
- ▣ Default means no payment within 270 days

# Forbearance (Direct Loans)

- ▣ If you can't make your loan payments and do not qualify for deferment, you can ask for a forbearance
- ▣ Allows you to temporarily stop making payments, temporarily make smaller payments, or extend the time making payments
- ▣ Typical reasons: illness, financial hardship, or serving in a medical or dental internship or residency
- ▣ Under certain circumstances, can be automatic and quick, e.g. military mobilization, national emergency

# Cancellation (Direct Loans)

- ▣ Teacher service: a full-time teacher in a low-income school for consecutive years may be able to have up to \$17,500 of subsidized or unsubsidized loans cancelled
- ▣ Public service jobs: If you have made 120 payments and are employed in certain jobs (e.g., public safety, public education), the remaining balance may be cancelled
  - See <http://studentaid.ed.gov/PORTALSWebApp/students/english/PSF.jsp>
- ▣ Disability, bankruptcy, or death:
  - Total and permanent disability: can apply for cancellation or loans
  - Bankruptcy: possible, but very hard to cancel student loan debt
  - Death: family can get cancellation for a current student who dies

# Loan Consolidation

- ❑ Consolidation means combining your *federal direct loans* into 1 loan. This process will use a weighted formula that takes into consideration loans at various interest rates.
- ❑ Has pros and cons. Graduates like keeping track of only 1 payment, but it generally extends the repayment period. [Learn more about consolidation](#) before deciding.
- ❑ The U.S. Department of Education and the Consumer Finance Protection Bureau (CFPB) provide web access to a secure online [National Student Loan database](#) where you can look up your outstanding student loans, but only your federal direct loans (not any private loans).

# CFPB Student Loan Debt Repayment Assistant

Student debt repayment assistant - Consumer Financial Protection Bureau - Windows Internet Explorer

http://www.consumerfinance.gov/students/repay/

File Edit View Favorites Tools Help

★ Favorites ★ Suggested Sites ▾ Get more Add-ons ▾

Stockton College - Stockto... Stockton Center For Econ... MoneyU FinEd Reviews Gmail: Email from Google CashCourse > Main Student debt repayme... x

cfpb Consumer Financial Protection Bureau An official website of the United States Government (855) 411-2372

HOME INSIDE THE CFPB GET ASSISTANCE PARTICIPATE REGULATION **SUBMIT A COMPLAINT**

## Student debt repayment assistant

Before you start, it will be helpful to have a list of your loans, as well as the required monthly payment amounts. If you don't have this information, don't worry.

While our Student Debt Repayment Assistant can't give you advice for your exact situation, we hope it can point you in the right direction and help you learn about some of your options.

### QUESTION 1: FEDERAL, NON-FEDERAL, OR BOTH?

Are your student loans federal, non-federal, or a mixture of both?

 If you aren't sure what kind of loans you have, visit the [National Student Loan Database System for Students](#) and select "Financial Aid Review" for a list of all federal loans made to you. Click each individual loan to see who the servicer is for that loan (this is the company that collects payments from you). It's very important to know your servicer. This might be a different company from the original lender.

#### Federal loans

- Probably has a name like Stafford, Grad PLUS, Direct, or Perkins

#### Non-federal loans

- Issued by a bank, credit union, your school, or other lending institution
- Might use names like "private" or "alternative"
- Issued by a non-profit or state agency

If you're not sure whether you have non-federal loans, contact your school's financial aid office since they may have this information on file.

FEDERAL NON-FEDERAL BOTH

Share

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Internet 75%

# PLUS Loans: Advice for Parents & Graduate Students

- ▣ Graduate and professional students automatically receive the 6-month grace period (deferment) upon graduation day.
- ▣ Parent borrowers do not!
- ▣ Parents/co-signers of PLUS loans must initiate (apply for) deferment to receive the 6-month grace period following a student's graduation.
  - Apply directly to the loan servicer for this grace period.
- ▣ An important note about loan interest: Loan interest on all PLUS loans (parents and grad students) does accrue (begins) during the deferment period.
- ▣ Further information for PLUS loan borrowers is available from the [U.S. Department of Education](#).

# Private Loans

- ▣ Have higher interest rates.
- ▣ Interest accrues while you are in school.
- ▣ May not offer forbearance or deferment options.
- ▣ Contact your lender immediately if you have any questions, problems, and concerns.
- ▣ The Consumer Finance Protection Bureau also has a [private student loan ombudsman](#) and an online complaint form.

# Repayment Calculator: How much per month?

The screenshot shows the NerdWallet website's education section. The navigation bar includes 'Finance', 'Travel', and 'Education'. The main content area features a 'Student Loan Calculator' section with the heading 'Know before you owe!'. Below this heading is a paragraph: 'Make the most informed decisions about financing your higher education. NerdWallet's Student Loan Calculator will help you estimate your monthly payments and evaluate your consolidation and federal loan options.' There are three sub-sections: 'Estimate Repayments' (Calculate future payments for your loan(s)), 'Consolidation Calculator' (Explore whether consolidation is right for you), and 'Maximize Your Federal Borrowing' (Take advantage of all Federal loan options). The 'Estimate Repayments' section is active and contains a form titled 'Enter information about your current loans:'. The form has a table with four columns: 'Loan Type', 'Balance (\$)', 'Rate (%)', and 'Term (Years)'. There are four rows, each starting with a 'Choose...' dropdown menu. A red arrow points to the first 'Choose...' dropdown. Below the table is a 'Calculate Repayment' button. On the left side of the page, there are four menu items: 'Student Loan Calculator' (with a laptop icon), 'Financial Literacy' (with a document icon), 'Compare Colleges' (with a graduation cap icon), and 'Student Tips' (with a piggy bank icon).

**Student Loan Calculator**  
Estimate your payments and evaluate loan options.

**Financial Literacy**  
Ace your personal finances.

**Compare Colleges**  
Choose the best school for your future.

**Student Tips**  
The nerds are here to help.

**Estimate Repayments**  
Calculate future payments for your loan(s).

**Consolidation Calculator**  
Explore whether consolidation is right for you.

**Maximize Your Federal Borrowing**  
Take advantage of all Federal loan options.

**Enter information about your current loans:**

Loan Type	Balance (\$)	Rate (%)	Term (Years)
Choose...			

Calculate Repayment

Enter ALL of your loans 1 by 1 on Nerd Wallet's repayment calculator.

# Some Strategies to Pay Off Debt from Student Loans or Credit Cards



## □ Snowball Method:

- Place debts in order of smallest to largest balance
- Apply all additional funds to the smallest debt balance first
- Benefit: Gives you the feeling of accomplishment early on as you pay the small debts off

## □ Avalanche Method:

- Stack debts according to interest rate (hi-to-low)
- Add additional money to the debt with the highest interest rate in an effort to pay that one off first
- This method saves the most money over time



# Resources for Stockton Students

- ❑ CashCourse at [www.cashcourse.org/stockton](http://www.cashcourse.org/stockton)
- ❑ Financial Aid website link to “Financial Literacy”
- ❑ Stockton Center for Economic & Financial Literacy website at [www.stockton.edu/finlit](http://www.stockton.edu/finlit)
- ❑ Best site for comparing credit card offers and rates: Bankrate.com, <http://www.bankrate.com/credit-cards.aspx>
- ❑ Best site for student loan calculator: Nerd Wallet
- ❑ Best site for student financial calculators: American Center for Credit Education at <http://www.acce-online.com/students/tools.html>