

Types of debt

How you repay debt determines your credit rating, so knowing about the types of debt is important.

Installment loans are for big-ticket items such as cars or homes. Installment loans are paid in monthly fixed amounts and are normally secured (i.e. backed by something of value, such as a car). Payments should be manageable in your budget. Make payments on time as this will help improve your credit rating.

Credit cards and department store cards are revolving credit lines. Credit cards are heavily marketed and the terms often look better than they really are: Proceed with caution! Credit cards have a monthly payment that varies based upon total amount owed. Poor handling of credit cards can quickly hurt your credit rating.

Student loans are unsecured installment loans. Explore all your financial aid options, focusing first on scholarships and grants that don't have to be repaid. Borrow only the amount you need to get through college. If you are considering any private (student) loans, be sure to first apply for federal and state student loans. You will be happy to have a lower student loan payment when you begin your career and want to buy a home and a car. See ISEEK.org for information on careers and salaries. Based on that salary information, estimate the amount of debt you can afford. Ideally, student loan payments should be 10 percent or less of your net monthly income. Total debt, including your mortgage payment, should not exceed 36 percent of your gross income.

Your credit rating

A credit score is based on many types of information in a credit file. Lenders use a credit score to help determine whether a person qualifies for a credit card, loan, or service. Generally, the higher the score, the less risk the person represents.

- A good credit history can mean lower interest rates, a job offer or a decent apartment.
- **A bad credit history will stay on your record for years and will make obtaining a mortgage or car loan very difficult.**
- Be aware of what's in your credit report. You can get your credit report free once a year from www.annualcreditreport.com. Your credit report includes your name, current and past addresses and employment, and all credit (debt) you have, including the current outstanding balance and whether you've ever been late for a payment. The report also lists any companies that have made credit inquiries. Challenge any information that you believe is inaccurate.
- Making student loan payments on time is often the first step in establishing a good credit history and will likely help you when applying for a car loan or home mortgage down the road.
- Paying your rent, utility bills and credit card bills on time is important as they are also considered part of your credit history.

In financial trouble?

Here are questions to determine if you have too much debt:

1. Do you have trouble paying your bills on time?
2. Do you only make the minimum payments on your credit card?
3. Are you near to the maximum on your credit card limit?
4. Do you worry about money all the time?
5. Have you ever needed to borrow money to pay your bills?
6. Are creditors calling you?

Seek help

If you answered yes to any of the preceding questions, it is important to seek help. Visit the Web sites listed below. Before deciding if a financial planner is right for you, do your research. Talk with trusted family and friends to find a financial planner. Consider a non-profit financial counseling services such as www.cccs.org.

Further information

The Web sites below provide further information on credit and debt management. Explore them!

- money.cnn.com/magazines/moneymag/money101/index.html
- bankrate.com
- Showmethefuture.org
- Yourmoney.cba.ca
- Smartmoney.com
- Youcandealwithit.com
- Smartaboutmoney.org/40moneytips

Sample Budget

Based on a \$35,000 salary
(see ISEEK.org for salary information)

Monthly income after taxes		\$2480
Housing	-1000	
Transportation	-500	
Food	-400	
Other household	-100	
Entertainment	-200	
Remaining for student loan		\$280



Student Loans

Total borrowed	Monthly payment
\$10,000	\$103
\$20,000	\$206
\$30,000	\$309

(Based on 4.5% annual interest rate)

Money Management for Students

How to get the most
from your money and
prepare yourself for the future!



Minnesota
STATE COLLEGES
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Upon request, this document is available in
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Twin Cities: 651-296-8012
Toll free: 1-888-667-2848
TTY: 651-282-2660

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As you begin college, this is the perfect time to learn important skills that will help you manage your money now and in the future. This brochure will cover a variety of money management topics, including budgeting, credit cards and credit rating, debt management, how to identify financial troubles and finding resources to help.

Monthly budgeting in college

- Keep track of what you earn and what you spend. Create a monthly budget and track to see if it is accurate (see example on the inside page).
- Be aware of when you are buying to fulfill a need such as food, compared to a want such as the latest CD. Skip purchasing some wanted items to show you can do it!
- Find ways to cut costs: Use a bicycle, get a roommate, learn to cook and buy used books.
- Get organized: Establish a monthly bill-payment routine and set up a filing system.
- Track your bank account. Be careful with your debit card – don't go in the red.

Credit card tips

- Keeping debt at bay is the #1 ingredient for financial success. Start now!
- Realize that the spending patterns you set today will have an impact on the rest of your life.
- Don't have more than one.
- Read all the fine print of a credit card offer, including interest rate information and when the rate can increase, amount of late fees, over-the-limit fees, balance transfer fees, etc.
- It is good to use your credit card sparingly and better to use it only in an emergency.
- Try to pay off the entire balance each month to avoid unnecessary interest. Always pay more than the minimum due.
- Calculate the annual amount of interest you are paying; multiply the interest rate by the total balance owed.
- Avoid penalties and fees as they can add up quickly.
- Always keep your balance at least one-third below your credit limit in case of emergency.

