

# Budgeting 101



**Knowledge of Financial Education**

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When debt is the problem, we are the solution.

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## Recent Statistics:

- 83% of undergraduate students have at least one credit card.
- Nearly 40% of students now graduate with unmanageable student loan debt.
- A third of college seniors graduate with \$20,000 or more in student loan debt.
- Just over half of students who used loans to pay for college say they feel burdened by their debt.

## Managing Debt

Many college-bound seniors get credit card offers before they even set foot on campus. Once at school, they are enticed with offers for free T-shirts, concert tickets or other freebies for filling out an application. Credit card companies are competing to be the first in a student's wallets because they know that students who have their cards are likely to keep them and use them.

Credit isn't all bad. In fact, establishing good credit as a student can help you get the best rates on auto insurance, rent an apartment or buy a home, and avoid deposits on utilities or other services.

The key to managing credit is to not get trapped in the mindset of "I'll buy now and pay later." When you do borrow, you want to ask yourself how and when you'll repay the debt - and how much it will cost you. We've created a Borrowing Worksheet you can use to keep track of your debt and create a repayment schedule.

## Credit Tips

- Shop around for the best credit card interest rate. Consider using one card for balances that you'll pay in full and another card with a low interest rate for times when you need to carry a balance. A list of student credit cards is available at [www.cardtrak.com](http://www.cardtrak.com).
- Don't pay interest on items you don't really need, or for things

that will be gone by the time you get your bill. Otherwise, it's like buying that item marked up instead of marked down!

- Read your credit card agreements and the correspondence you get from issuers. There may be important information in them. For example, credit card issuers can generally change your interest rate with only 45 days written notice – even on a card with a fixed rate.
- Always mail your payments for your credit cards at least 7 business days before the due date. Most credit card companies have steep late payment penalties. Also, your interest rate on new purchases as well as any current balance may be raised to a very high rate if you are late.
- If you pay your debts late, a late payment will likely be reported to the major credit bureaus and will stay on your credit report for seven years. Your other credit card issuers may raise your interest rates if they see you are falling behind on other accounts.
- Call your issuers if you can't make a monthly payment on time. Ask them about alternative payment arrangements that won't damage your credit or raise your interest rate.
- Notify your credit card issuer 30 days before you move, and don't assume that just because you didn't get a bill you don't have to pay it. If a bill doesn't arrive, call your card issuer or lender immediately.
- Try to pay off your total balance each month. Just paying the minimum is a trap. If you pay-off a \$1,000 debt on a card with an 18% interest rate, it will take you more than 12 years to repay.
- Aim to keep your debt payments at less than 10% of your income after taxes. If you take home \$750 a month, spend no more than \$75 a month on credit.

## Student Loan Strategies

Student loans can be a lifesaver when it comes to financing school. However, they can quickly become a major burden if the payments are unmanageable or if you have a hard time finding a job at your expected salary when you graduate. Here are some tips for avoiding problems with student loans later:

- Graduate school can mean significantly more student loan debt

if you have to borrow money to help pay for it. Consider looking for a job with tuition benefits and attending graduate school while you work.

- You may be able to get part of your student loans forgiven or cancelled if you perform certain types of work such as teaching or healthcare in low-income areas, some forms of military service, or if you serve in the Peace Corps. If you'll have a lot of student loan debt, you may want to explore these options before you graduate. Visit the Department of Education's website at [www.ed.gov](http://www.ed.gov) for information on student loan cancellation and forgiveness.
- If you anticipate having trouble paying back your student loans, look into options for flexible repayment plans, or postponing your payments. If you fall behind, you'll have fewer options available to you, so be proactive. Contact the Department of Education's Ombudsman's Office for more help at [www.sfahead.gov](http://www.sfahead.gov).
- While you may be anxious to graduate as soon as possible, working full or part-time and attending school part-time may allow you to get valuable work experience while keeping loan balances at a more manageable level.

### College Life & Budgeting

This guide has been created with two purposes in mind:

- To help you create a successful budget and use it.
- To give you proven strategies for avoiding too much debt.

Making the most of your money while you're in college can be tough. You may have to rely on student loans, your savings, a full or part-time job, or help from your parents to make ends meet. The money you do bring in may come in spurts rather than in a steady stream. And you may be paying for things you used to take for granted at home, like a place to live or food. But just because budgeting is challenging that doesn't mean you can't do it. In fact, now's a great time to learn how to create and live within a budget. After all, you've gone to school to create a successful future. Learning how to budget

is one of the lessons that will stick with you long after you've graduated. If you don't learn to manage your money now, the headaches your debts create may stay with you for a long time. Many credit counseling agencies help college students and recent graduates who are deep in debt from student loans and credit cards. They want to help you and other students avoid problems and become financially successful.

### Borrowing Worksheet

On this worksheet list your current loans or the loans that you are thinking about taking out. Calculate the cost of your expected student loan payments before you borrow and compare them to the salary you realistically expect to earn when you graduate. Generally, your payments shouldn't exceed 8% of your expected income.

| Creditor | Interest Rate      | Amount Owed     | Monthly Payment       | Loan Length          | Interest Cost              |
|----------|--------------------|-----------------|-----------------------|----------------------|----------------------------|
|          |                    |                 |                       |                      |                            |
|          |                    |                 |                       |                      |                            |
|          |                    |                 |                       |                      |                            |
|          |                    |                 |                       |                      |                            |
|          |                    |                 |                       |                      |                            |
|          |                    |                 |                       |                      |                            |
|          |                    |                 |                       |                      |                            |
| Totals   | Average Interest % | Total Amount \$ | Total Monthly Cost \$ | Total Time to Payoff | Total Spent On Interest \$ |

The first step of creating your budget is to list all sources of monthly income, including gifts, bonuses, tax refunds, cost of living increases, allowances, etc. To tally your income, use the following Income Worksheet.

| Income Sources           | Income Weekly/Bi-weekly |
|--------------------------|-------------------------|
| Your Wages               |                         |
| Allowance                |                         |
| Internship Stipends      |                         |
| Social Security Benefits |                         |
| Other                    |                         |
| Other                    |                         |
| Other                    |                         |
| Total                    |                         |

*TIP: Pay yourself first. Set up a savings account and transfer 5% of your income to the account—and try to forget about it. The extra money will come in handy when you need it!*

**Credit card debt** is considered a fixed expense because it usually remains the same each month. Use the following form to list your monthly credit card debt. List all major credit cards, department store credit cards, gas credit cards and dining cards.

When you are finished, total up the amount and transfer it to the appropriate column on the fixed expense worksheet on the next page.

| Creditor Name | Interest Rate                         | Balance Owed         | Monthly Payment            |
|---------------|---------------------------------------|----------------------|----------------------------|
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
|               | %                                     | \$                   | \$                         |
| Totals        | Average Interest of all cards: _____% | Total Owed: \$ _____ | Monthly Payments: \$ _____ |

**Expenses**

The next step is to list your expenses. Expenses are separated into three categories: "fixed", "flexible", and "discretionary".

| Monthly Expenses   | Amount |
|--|--------|
| Rent/Dorm Payment  | \$     |
| Activity Fees  | \$     |
| Trips/Required Outings                                   | \$     |
| Car Loan/Lease Payments                                  | \$     |
| Car Insurance  | \$     |
| Book Costs for each Semester                             | \$     |
| Medical Insurance  | \$     |
| Credit Card Debt<br>(totaled from the credit card sheet) | \$     |
| Other  | \$     |
| Other  | \$     |
| Total  | \$     |

*TIP: Collect and write notes on your receipts. This will help you track spending and raise awareness of your spending habits.*

The next step is to list your Flexible Expenses. These expenses are ones where you control the amount of money you spend. Sometimes flexible expenses are items you need, like groceries, but you can control how much you spend on them by choosing less expensive items, shopping at discount stores, etc. Depending on your circumstances, a few of the items listed below may fall into the Fixed Expenses category.

| Monthly Expenses      | Current Payment | Adjusted to Balance Income |
|-----------------------|-----------------|----------------------------|
| Telephone Bill        | \$              | \$                         |
| Electric/Gas/Oil/Fuel | \$              | \$                         |
| Cable Television      | \$              | \$                         |
| Groceries             | \$              | \$                         |
| Household Supplies    | \$              | \$                         |
| School Supplies       | \$              | \$                         |
| Clothes               | \$              | \$                         |
| Dry Cleaning/Laundry  | \$              | \$                         |
| Savings               | \$              | \$                         |
| Other                 | \$              | \$                         |
| Other                 | \$              | \$                         |
| Total                 | \$              | \$                         |

The next step is to list all of the other expenses not listed in the previous categories. We call these Discretionary Expenses. They are items that are not necessary for survival. If your expense to income ratio is out of balance and you are spending more money than you earn, items from this category should be eliminated or cut back.

| Monthly Expenses     | Current Payment | Adjusted to Balance Income |
|----------------------|-----------------|----------------------------|
| Recreation           | \$              | \$                         |
| Movies/Plays         | \$              | \$                         |
| Dining Out           | \$              | \$                         |
| Sporting Events      | \$              | \$                         |
| Magazines/Newspapers | \$              | \$                         |
| Barber/Beauty Salon  | \$              | \$                         |
| Hobbies              | \$              | \$                         |
| Fund-raisers/Dues    | \$              | \$                         |
| Other                | \$              | \$                         |
| Other                | \$              | \$                         |
| Other                | \$              | \$                         |
| Total                | \$              | \$                         |

### **Where Do You Stand...**

Now that you have compiled your income and expenses it is time to do the grand totals! All expenses are totaled and then subtracted from the total income figure for the month. Next, divide total expenses by the frequency of income or the number of paychecks the household receives each month. This will tell you how much money to set aside each paycheck. If the expense total is greater than the income total, you are off track financially.

You must begin to prioritize expenses. Keep track of when you use credit cards. Then ask yourself if you want to borrow every month for these expenses. Each month, enough savings should be set aside to cover fixed and some flexible expenses. This reserve method will save you from living paycheck to paycheck. Review the spending-plan each income period to start. At the end of each month, compare actual expenses against what you budgeted. As time passes, you may want to only perform this comparison on a quarterly basis.

## **WARNING!**

### **Don't Let This Happen To You.**

I went to college straight out of high school and was responsible for all my bills. Unfortunately (student) loans didn't cover all my school expenses so I started getting credit cards to help buy the things I needed for school and to pay for school-related bills.

I worked at least thirty hours a week my entire school years and attended school full time. In the beginning I paid my balances off in full or close to it, but eventually my other bills such as rent, electricity, gas, food, began to make it more and more difficult to pay my balances in full.

My credit cards became temptations when my friends seemed to always have so much more. To "keep up with the Joneses' " I began using my credit cards for more and more non-essentials such as eating out or going on spring break. I didn't really seem to catch that my cards were really getting me into deep financial trouble because I was up to date and current with all my payments, just unable to pay them off in full. I thought I would be able to land that "dream job" that they promised a college education would bring when I was in high school. I didn't figure that two years after graduation I would only be making \$16,000 a year. Eventually I had built up nearly \$17,000 in credit card debt and \$25,000 in student loans. I was at the point where I had collectors harassing me at home and even at work. On top of that, they were harassing my parents even though I haven't lived with them since I graduated high school. Now I am working my way through the debt with the help from a credit counseling agency. If I could do it over again, I would say NO to all credit card offers.

### **Give me some college credit**

In college I received credit card offers almost every other day. I thought it was so cool at 18 to be able to buy things and pay just a little bit per month. I worked two full time jobs to support myself through college, and ended up with four credit cards, all maxed to their limits. I had trouble keeping up with just the minimum payments on all of the cards, and became frustrated at how, even though I was making monthly payments, my balances actually went up each month due to interest rates. I'm now 22 years old and I had a lot of problems because of my credit history. I still have \$8,500 in credit card debt that I'm working to pay off with the help of a credit counseling agency. Before joining their debt management program I couldn't get a bank account or an apartment without my mom co-signing on it. According to my latest credit report, these credit snafus from my college years will be on my record until January 2010... until I'm 29 years old! Buying a house, a car, getting loans, etc. are going to be very tough until I am in my 30's.

### **End of the Month Budget Analyzer**

After the second month of using your budget, utilize this sheet to compare what you actually spent and the amount you budgeted. This will give you a clear picture of how realistic the amounts you budgeted are for each item and will allow you to be more accurate when doing your next monthly budget. Make enough copies so you can try this exercise each month until the end of the year.

Date:

Monthly Income:

Expenses Budgeted Actual

|                                  |          |          |
|----------------------------------|----------|----------|
| Dorm/Rent                        | \$ _____ | \$ _____ |
| Electricity/Gas/Oil              | \$ _____ | \$ _____ |
| Telephone                        | \$ _____ | \$ _____ |
| Car Payment                      | \$ _____ | \$ _____ |
| Insurance                        | \$ _____ | \$ _____ |
| Gas                              | \$ _____ | \$ _____ |
| Parking/Tolls                    | \$ _____ | \$ _____ |
| Bus/Train                        | \$ _____ | \$ _____ |
| Groceries                        | \$ _____ | \$ _____ |
| Supplies                         | \$ _____ | \$ _____ |
| Self Care                        | \$ _____ | \$ _____ |
| Toiletries                       | \$ _____ | \$ _____ |
| Clothing/Accessories             | \$ _____ | \$ _____ |
| Dry Cleaning                     | \$ _____ | \$ _____ |
| Medical/ Dental                  | \$ _____ | \$ _____ |
| Spiritual/Tithing                | \$ _____ | \$ _____ |
| Therapy/<br>Financial Counseling | \$ _____ | \$ _____ |
| Pets                             | \$ _____ | \$ _____ |
| Movies                           | \$ _____ | \$ _____ |
| Video Rentals                    | \$ _____ | \$ _____ |
| Concerts/<br>Sporting Events     | \$ _____ | \$ _____ |
| Dining Out/Take Out              | \$ _____ | \$ _____ |
| Savings/Emergency<br>Fund        | \$ _____ | \$ _____ |
| Stock/Mutual Funds/<br>Gifts     | \$ _____ | \$ _____ |
| Periodicals/Magazines            | \$ _____ | \$ _____ |
| Dues/Donations                   | \$ _____ | \$ _____ |
| Total                            | \$ _____ | \$ _____ |

## Credit Card “Come-On’s”

### *One Debtors College Credit Story*

As a freshman in college all the different credit card companies that were soliciting their cards lured me in. At first I figured one credit card was good enough for me. I didn't have a real full-time job but I made a few dollars working as a tour guide.

The offers just kept coming in. Before I knew it I had at least 6 cards under belt and a burden of debt on my shoulders. Now as a mother of a one-and-a-half year old, my student debt has affected me greatly. I'm unable to get a decent apartment or rent a house because of my credit. I'm unable to get loans. The harassment, threats of lawsuits, constant letters/statements etc. really take a toll on one's life. If I could change the past I would.

Currently I still have student debt and it will take me years to pay it off because of all my other obligations. I hope I can help someone else with my story because getting yourself into a whole lot of credit card debt is just not worth the headaches and rejection. Now she is working with a credit counseling agency and on her way to being debt free.

### **Credit Tips for Students**

The risks are higher than ever if a student racks up lots of card debt. More employers and landlords are checking the credit reports of job candidates, so the cleaner the credit, the better. Here are some tips for handling it wisely.

1. Always remember that credit is a loan. It's real money that you must repay. Before you apply for the first card, decide what the card will be used for -- Emergencies only? School supplies? -- and determine how the monthly bills will be paid.
2. Go slowly. Get one card with a low limit and use it responsibly before you even consider getting another.
3. Shop around for the best deal. Study your card agreement closely, and always read the fine print flyers enclosed with every bill. Credit card offers vary substantially, and the issuer usually can change the terms at will with 15 days notice.



