



# Credit Cards & Debt Management

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The Freshman 15 is nothing. Let's talk about the Senior 25,000. We're not talking pounds here, of course, but dollars in debt. Debt is money owed to a creditor. According to Sallie Mae and the U.S. Department of Education National Center for Education Statistics, the average undergraduate college student graduates with over \$22,000 in student loan debt and over \$3,000 in credit card debt. Yikes!

The college years are not just about personal growth, it turns out. They're also about credit, debt, and other financial management topics. And you'll want to get financially savvy now or you could end up graduating with a diploma *and* a mountain of debt.

You do not have to join the ranks of students who are inordinately burdened by debt. While your circumstances may require you to accumulate some debt during your college years, you can do so wisely. This chapter will show you how by

- helping you understand debt
- recommending strategies to keep your debt in check
- teaching you how to recognize if your debt is out of control
- outlining your options if your debt becomes overwhelming

## Understanding Debt

If you have debt, you are not alone in your age group. Recent statistics illustrate the reality of undergraduate student loan and credit card debt:

- In 2008, over 67% of students graduated with student loan debt. (source: Sallie Mae)
- In 2008, the average student graduated with over \$22,000 in student loans. (source: National Center for Educational Statistics)
- 1 in 10 students graduate with over \$40,000 in student loans. (source: [projectonstudentdebt.org](http://projectonstudentdebt.org))
- Undergraduate students' average monthly credit card balance is over \$3,000. (source: Sallie Mae)

- Almost 7% of debtors applying for bankruptcy are between the ages of 18 and 24. (source: Government Accountability Office)

While these figures may seem alarming, it's important to recognize that not all debt is bad.

## Good Debt vs. Bad Debt

Good debt is debt that allows you to access something of long-term value, such as an education or a home. Bad debt is the result of short-term, “feel-good” decisions, such as purchasing something you can't really afford and don't really need.

Student loans that help further your education will probably pay off in nonmaterial as well as material ways. Statistically, people with post-secondary degrees do much better in the job market than those who don't have them. Because of the importance of a college education, student loans are generally viewed as low-interest, high return investments. Much like home loans, they promise higher future income. Also, both of these types of debts offer tax advantages—you can write off a portion of the interest, which pulls down the cost of the debt itself.

Credit card debt can be in both categories. It's good in that accumulating some debt and paying it off is necessary for establishing good credit. It's also good because it's convenient and secure. You're not likely to rush to the airlines to pay for a flight with a wad of cash; you're even less likely to call the bank to put a stop payment on the cash someone lifted from your wallet. Credit cards allow you to book flights and hotels, they provide extra insurance for some purchases, and they tend to be much better than cash when you travel and want to get the best exchange rate. Credit cards can be stolen, but they're usually protected. This means you probably won't be responsible for charges racked up illegally with your card.

But the praise stops there. Credit card debt can be very bad. Interest rates that begin as low, introductory rates quickly become unmanageably high. When you can't pay more than the minimum monthly payment, you end up paying doubly and even triply for that cool pair of shoes you bought five years ago. How bad is credit card debt? It depends on how much you owe. How long will it take you to pay the debt down? How high is the interest rate? Is it limiting other opportuni-

**GOOD TO KNOW**

**Let's say you charge \$2,000 on a credit card to cover part of your tuition one semester. If that credit card company charges 19% interest and you make the minimum monthly payments, it will take you over 8 years and almost another \$2,000 in interest to pay off that charge.**

Source: Government Accountability Office.

**55% of students who took out loans for their education feel burdened by their debt.**

*Consider This ...*

**54% of student borrowers said they'd take out less in loans if they had to do it all over again.**

**70% of student borrowers said student loans were worth incurring for personal growth.**

Source: Nellie Mae 2002 National Student Loan Survey.

[http://www.nelliemae.org/library/research\\_10.html](http://www.nelliemae.org/library/research_10.html)

ties, like your ability to apply for another type of loan? The answers to these questions will tell you if your credit card load has moved from bad to ugly.



According to student loan lender Sallie Mae, student credit card use has increased despite the recent credit freeze. In 2009, 1 in 3 students reported putting tuition on plastic. 9 in 10 students reported charging textbooks and other direct education expenses to their cards.

## Keeping Debt in Check

In the whirl of classes, financial aid paperwork, and new freedoms, many students quickly lose track of what they owe and to whom. Be aware of for-profit companies that prey on people who feel overwhelmed by debt. You should not have to pay anyone to manage your debt situation; there's plenty you can do on your own and if you feel really buried there are well-respected nonprofit organizations, like Consumer Credit Counseling, that can help you. Here's how to get a handle on your debt:

**Step 1: Figure out what you owe.** Pull out your latest credit card and student loan statements and create a table of the following: the amount you owe to each vendor, the interest rates, and your minimum monthly payments. (Note: Go to [www.nsls.ed.gov](http://www.nsls.ed.gov), the National Student Loan Data System website, to see all of your student loans in one handy place.) Your student loan payments won't begin until you graduate, but it's good to keep track of them starting now.

Debt Record					
Name of loan	Principal owed	Interest rate	Annual interest payment (est.)	Minimum monthly payment	Goal monthly payment
BankTwo Visa	\$5,522	15.75%	$\$5,522 \times 0.1575 = \$870$	\$65	\$150
Fuel Card	\$648	11.25%	$\$648 \times 0.1125 = \$73$	\$20	\$80

**Step 2: Prioritize pay offs.** You need to make the minimum monthly payments on all debts or your credit score will suffer. But creditors' required minimum monthly payments are designed to pad their pockets and raid yours, so do all you can to pay more than the minimum. Pay off higher interest loans first. If Card A has an 18% interest rate and Card B has a 9% interest rate, pay the minimum on B and pay off A as quickly as possible.

**Step 3: Consolidate debt.** You don't need to do this "officially," using a for-profit company to manage your accounts. You can usually take care of this step on your own. For example, pull all your credit card debt onto one low-interest card. It will lower your overall interest payments and allow you to pay one bill instead of several, thereby increasing the odds of paying the bill on time and keeping your credit score up. Caution: Do not use your new card to charge items or you'll likely end up with more debt than when you started the transfer process.

**Step 4: Live within your means.** Stop all impulse buying and cut corners where you can. Pack food with you to class so you won't be tempted by the campus

eateries. When a new gadget or item catches your eye, give yourself a cool-off period of at least 48 hours to consider the pros and cons of purchasing it. It can be empowering to say no to such purchases, especially when you realize how doing so will benefit your future.

**Step 5: Stay focused.** Keep your debt and your financial priorities in view. Review your statements and always be able to answer those fundamental questions: How much do I owe? Can I handle that much debt? The students who end up buried by debt are usually shocked when they realize how much they've racked up. Don't let unnecessary debt sneak up on you.

Debt Record					
Name of loan	Principal owed	Interest rate	Annual interest payment (est.)	Minimum monthly payment	Goal monthly payment

### Is Your Debt Out of Control?

If any of these statements describe you, your debt has moved into the driver's seat:

- I shop impulsively, buying things I don't really need.
- I make late or minimum monthly payments.
- I have credit cards that are at, or close to, my credit limit.
- I'm not sure how much I really owe.
- I use cash advances to pay my bills.
- I've had my credit card declined.
- My family members or friends are concerned about my spending habits.

If you recognize yourself in these statements, you can take action now to take back control.

Here are a couple of options:

**Contact a counselor at the Consumer Credit Counseling Service ([www.cccsstl.org](http://www.cccsstl.org)) or the National Foundation for Credit Counseling ([www.nfcc.org](http://www.nfcc.org)).** Both are nonprofit organizations that offer education and credit counseling. There are plenty of unethical credit counseling services, so make sure you stick to these two respected ones.

**Contact your creditors.** Call your current credit card companies and ask them to lower the interest rates. Creditors often want to work with their customers. After all, they want their money. If you can't pay them they'll end up having to send your account to collections, which means a big loss for them.

If one or more of your creditors has turned your account over to a collection agency, you need to know the following:

- A collection agency may contact you by phone, e-mail, mail, or in person.
- They cannot call your boss or members of your family.
- No one else can be forced to pay a debt that is yours alone.
- You can get them to stop calling you by sending them a letter. They are then only allowed to contact you regarding plans to bring legal action against you.
- You do not need to tolerate rude or belittling remarks.
- Collection agencies are not empowered to work out terms of payment.
- If you think you are being treated unfairly, contact the FTC at (877) FTC-HELP or go to [www.ftc.gov](http://www.ftc.gov).

## Credit Cards & Debt Management Exercises

1. Fill out the table (“Debt Record”) on page 158. How long will it take you to pay off your current bad debt? The National Foundation for Credit Counseling website ([www.nfcc.org](http://www.nfcc.org)) has a great calculator that can help you answer this question.
2. Tour the websites of both major credit counseling services: Consumer Credit Counseling Service ([www.cccsstl.org](http://www.cccsstl.org)) and the National Foundation for Credit Counseling ([www.nfcc.org](http://www.nfcc.org)). Which sections of the two websites do you find most helpful and interesting? What facts, tips, and strategies did you learn that you will likely use?
3. Develop a plan for keeping your debt load as low as possible. How can you limit spending now so that you're not paying for it well into the future? Remember to keep your goals in plain sight—literally, write them where you can see them on a regular basis.