Your Money and You

A college student's guide to money management

"ASK THE BROKER!"

with Gary R. Miles

Q: What do you think about Amazon now? Do you think Amazon will break even by Q4 of 2001 or Q1/Q2 of 2002?
A: The company is having a hard time keeping its cash flow. There is no earnings growth to support price. No, they will not break even.

Q: Do you think we've seen the bottom of the market as of yet?
A: We probably won't see it until around July 4 if everything stays status quo.

Q: What do you think about the possibilities of a rate cut before May 15?
A: Very good.

Q: What NASDAQ stocks do you like?
A: Biomira, Microsoft, Intel.

Q: What do you have to say about small caps under current market conditions?
A: As long as there is 15% growth with cash flow, they're ok.

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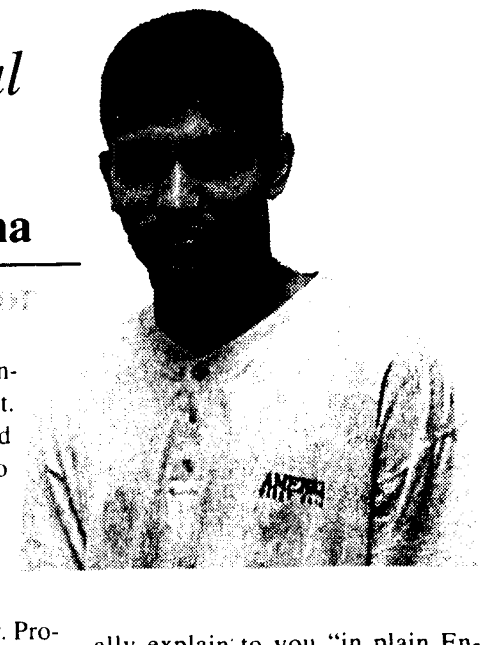
He currently works as an investment broker and can be contacted at (814) 725 - 6446.

All about student loans...part 2

Financial Outlook

Amortya Sinha

money page editor



In the last Money Page issue dated March 23, I started an article on student loans. This is the second and concluding part. Once again, this article is only to give you a general idea about student loans. If you need to take out a student loan, please consult your financial advisor or your local bank or credit union. This article was written with help from www.cnnfn.com,www.freschno.com Penn State Behrend's Financial Aid office and a fellow *Beaconian*, Ann-Marie.

Some Things You Need To Know About Student Loans

Balloon payment plans increase the overall cost of the loan: Some banks will set you up with a balloon payment plan, where you pay smaller amounts during the first few years, and the amount increases over the years. Since in effect you are only making interest payments the first few years, the principle does not decrease significantly during time.

The amount of interest you end up paying over the course of the loan repayment can be as much as 18% more than you would have paid if you went with the flat-payment plan (paying the same amount every month for the life of the repayment).

You are not required to agree to a balloon payment plan.

You do not receive the full amount of the loan when you get the check

"Origination Fees" and "Guaranty Fees" are taken out of your check at dispersement time. Currently, Origination is 3% of the loan amount. This money actually goes back to the Federal Government. Then, 1% is taken out for what is known as "Guaranty"

This is basically an insurance premium. This money goes back to the bank lending you the student loan. Some banks will also take 1% or (more common) \$10-\$25 out of the loan amount for "document stamps."

These fees are perfectly legal, and usually stated "up front" on your loan. Just remember when you are budgeting your school costs that the actual amount of money you receive from your loan is at minimum 4% less than the amount you borrow. While this is money you never see, you have to pay it back.

Depending upon your school and the financial aid office's policies, your school may take a "handling fee" directly from the check, generally \$150-\$225, The various fees are legal and quite normal. Some lenders, in the name of competition, are paying a portion of the origination fees for the students.

Origination and Guaranty fees are only refundable if your disbursement is cancelled or repaid in full within 120 days of receiving it.

The check is not given to you

It is mailed directly to the college or university you are attending, where they then disperse it to you.

Assuming you are attending a school using the semester system, usually you will receive half of the loan amount at the start of the fall semester, and the other half at the start of the spring term.

The college or university will take whatever you currently owe them from the check first, and then give you whatever is left over. The Law allows the school the option of returning any remaining amount to the lender to be reapplied to your loan amount. This decreases the amount of loan you have taken out, however the fees you have paid (origination or others) may not necessarily be reduced or refunded.

The loan can and probably will be sold

It is very common after you begin repayment on your loan for the issuing bank or agency to sell the loan to another bank or finance corporation, although sometimes your loan will be sold before you begin to repay.

Your lender does not need your permission to sell the loan. If you do not pay attention to notices that your loan has been sold, the impact can be far more negative. It is your responsibility to make sure you are sending your payment to the right place.

More than a few students have found themselves in default because they did not pay attention to the letter their lender sent them informing them that their loan had been sold.

Hardship deferments are available

Most banks will allow you, under the guidelines set up by the federal government, "hardship" deferments.

Usually this is only approved for extreme hardship (unemployment is not necessarily considered a hardship!) and for only six months at a time up to a total of three years.

Do not default your loans

Defaulting on a student loan has serious and negative repercussions on your life.

You cannot receive any other loans or grants offered by the Federal government. This includes student loans, PELL grants, government funded or secured mortgages, Small Business Administration loans, and others.

Private lenders will usually refuse to provide you with unsubsidized or PLUS student loans.

In most states, you are not eligible for any financial aid offered by the State and some schools will not allow their financial aid offices to help you find financial assistance while you are in default.

Your default will be reported to all the major credit reporting agencies.

You will have much difficulty in getting any kind of loan and/or credit card. When you do find a lender, you will often pay much higher interest rates, due to your default. Your income tax returns and paycheck will be garnished to repay your loans.

You will find it difficult to get a conventional mortgage and liens may be placed on any houses or cars you own or buy. Professional licenses may be denied because of your student loan default.

Bankruptcy will not forgive the loans

Your obligation to repay Title IV, HEA student loan and grant liabilities can no longer be canceled (discharged) due to bankruptcy, according to a law passed in 1998. There are no exceptions to this.

Additional information about Student Loans

Late fees cannot exceed six percent. You can prepay your loan, or pay it off early, with NO penalty. The lender cannot put your loan in default until you are over 180 days late in payment.

If you use any part of the loan for non-education-related expenses, your lender can put you into default and call for the entire balance to be repaid immediately.

Recommendations

Shop around. Talk to credit unions, banks, finance corporations, your parents' employers, your school's financial aid office. Find the best deal you can on your loan, even though the "deals" do not vary very much from lender to lender.

Your school may give you a list of "preferred lenders." Quite often, the "preferred lenders" are lenders who are paying the school a fee to be listed. Other times, the "preferred lenders" are really preferred by the school, because prior students have had good service from these lenders. It is a good idea to look into the loan products offered by the preferred lenders, but you should also look into other lenders, especially your family's bank or credit union, for comparison purposes.

Never overestimate your earning capabilities! Just because as a freshman you plan on becoming a doctor and making \$300,000 a year when you graduate, does not mean that you will actually do that. Be sensible when getting the loans. Take out as few as possible.

Read everything you sign, at least four times. Do not let anyone rush you while you are reading anything you must sign. The lender will usually explain to you "in plain English" what you are signing, listen to what they say, then read the paperwork: Does it really say what the lender just said? Take all the time you need to read everything, and be sure you understand it. Remember that you are a customer - you are doing them a favor by giving them your business. They are not doing you a favor by loaning you the money

Keep in touch with your lender. Inform them promptly of address changes and if you change schools.

Get everything in writing. Make notes of who you talked to every time you have a phone conversation with your lender. If they have agreed to a forbearance, get it in writing.

Most financial aid offices are going to build your financial aid package around loans first, then grants and scholarships. Try to avoid this.

Negotiate with the school to adjust your financial aid package so that you receive as much possible money in the form of grants and scholarships first, then subsidized loans, then unsubsidized loans, then plus loans.

Make your payments on time and read everything you sign!

And finally - the most important thing: Save everything you receive, everything you sign, every check stub, everything!

Save it all. Never throw it out. Think of the "worst case scenario" that could happen: twenty years after you pay your loan back, an error is made somewhere and suddenly the bank is calling you saying you still owe them. If you threw out all those check stubs and that final release of loan, how are you going to prove that you paid it off? With student loan default claims, the burden of proof is on you. Be smart and be prepared for the worst.

Deciding to get a student loan is one of the biggest decisions you may ever make. Do not take it lightly! Student Loans will have a large impact on your life for at least ten years, and possibly longer. Many students have to hold a second job or take a job that was undesirable solely because their student loan payments were way too much.

Bankruptcy on the rise for young credit card users

by Michele Chandler
Knight-Ridder Tribune
April 10, 2001

Nguyen Matos got his first two credit cards shortly after he arrived as a freshman at Florida International University.

"Usually the first couple of days at school, you run into 10 or 11 of them offering you free stuff like coffee mugs, T-shirts and posters," Matos said, referring to the companies that solicit on campus. "I thought, 'I don't have a credit card. Let me fill out these applications. Why not?' "

Within a year, Matos had charged both Visa cards to their \$500 limits. His minimum-wage job didn't bring in enough to cover his car expenses and phone bill and for him to make his credit card payments, too.

"I missed three months of credit card payments and found I owed another \$300," an incredulous Matos said.

With the number of young people with credit cards increasing, their debt sometimes mounting into the tens of thousands and the number of bankruptcies among those 18 to 24 on the rise, the issue of credit card debt is gaining notice in Congress and among lenders and debt counseling firms.

And with credit experts saying that many parents aren't teaching their children how to avoid credit pitfalls, some colleges and universities, including FIU, now require students to complete a financial management course that includes guidance on how to handle debt responsibly.

Credit card firms are not limiting their heavy marketing to students at colleges, consumer credit experts say. Anticipating fierce competition for students on campus, "companies are marketing to young people before they even hit their senior year in high school," said Harvard law professor and bankruptcy expert Elizabeth Warren. "They're signing on these kids starting at 17, 16, even 15 years old."

Less stringent underwriting criteria at major credit card companies, coupled with the direct push to students, have led to easy access to credit cards for students with absolutely no credit history, according to a recent report by Nellie Mae, a national provider of student loans.

GROWING MARKET: In 1998, 67 percent of college undergraduates had credit cards, the company found. By 2000, 78 percent of undergraduates had at least one credit card; 32 percent of those had four or more credit card accounts.

Credit card balances held by college students are also rising. While undergraduates carried card balances averaging \$1,879 three years ago, their credit card debt has jumped 46 percent, to an average of \$2,748 last year, according to Nellie Mae's study. And 9 percent of the students had balances of more than \$7,000 last year, the study found.

"We noticed in the mid-1990s that students were starting to get credit cards, where in the early 1990s they did not have credit cards unless they were older students and independent," said Nina Prikazsky, vice president of operations at Nellie Mae.

A major indicator of trouble: rising bankruptcy rates among people 18 to 24. Two years ago, 118,000 people in that age range filed for bankruptcy nationwide, research by Warren found. That's up 51 percent from 1991. Credit card debt, Warren said, was the main problem cited when those people were asked why they filed for bankruptcy.

"I've helped people who have never had a job, but have \$30,000 in credit card debt," said Mark Blomquist, director of counseling for Auriton Solutions, a financial counseling firm.

LEGISLATION PROPOSED: The rising tide of young people tussling with credit card debt has attracted attention from lawmakers.

Last week, U.S. Rep. Louise Slaughter, D-N.Y., who has coauthored legislation that would tighten up on student credit, pitched her bill to members of Congress. Her proposal, called the College Student Credit Card Protection Act, would limit credit lines to 20 percent of a student's annual income and require parents to approve before credit limits are increased on cards for which they have co-signed.

The bill is now before the House subcommittee on financial institutions and consumer credit.

"Credit card issuers are raining down solicitations on college students," Slaughter said, dumping bags of credit card solicitations into a laundry basket on the House floor. "As a result, a lot of college students end up taking a crash course in debt management."

In a move making credit cards even more familiar on campus, universities are partnering with banks to offer cards to students and alumni, personalized with the school's logo.

FIU's Mastercard, for example, is emblazoned with the school's mascot, the golden panther. The card is offered through an exclusive deal with MBNA America Bank, one of the nation's largest issuers of credit cards.

The university agrees to allow MBNA's card to be promoted on campus through brochures tucked in bags from the campus bookstore and through direct mail to students and alumni. In return, the university receives a payment for every credit account opened, plus a fee for every transaction that students and alumni make. The textbook for that course urges students to develop a budget, carry just one credit card, use it only in case of emergency, pay bills on time, and check the Yellow Pages for credit counseling programs if problems arise.

Some schools are counseling more students struggling with credit card debt. "They don't look at credit cards as debt, they look at it as free money for a while," said Pamela Deroian, assistant director of the University of Miami's student counseling center.

"These students are not quite ready to accept the responsibility of adulthood. But credit cards are a major responsibility and are just being pushed on them like crazy. . . . It's very sad to see these students come in and say, "I don't know what to do. I have \$4,000 in credit card debt, people are calling me all the time, and I can't tell my parents.' "

Catherine Pulley, spokeswoman for the American Bankers Association, a trade group that represents credit card issuers, said that rather than blaming the issuers, placing more emphasis on credit education could reduce college students' credit problems. She said her organization is involved in such educational efforts."Those are simple things, like budgeting and determining your needs vs. your wants," she said. "Parents need to teach their child how to use money."

But for credit card companies, granting a card to a college student can lead to a lifetime of brand loyalty.

And even younger students are answering the credit card call. Miami resident Maria Moya, who just turned 18, has received more than a dozen card solicitations in the mail in the last few months.

She applied for only one, a Visa card with a \$500 balance that promoted itself as being good for students. "The literature said since I was in high school and going on to college, it would help me because I could start building up my credit," said Moya, a senior at William H. Turner Technical Arts High School in North Miami-Dade. She plans to pay all her bills in full.

That's advice that Matos, now a sophomore at FIU, could have used. After getting his cards shortly after entering FIU, he bought items for his car, computer and home and figured he would pay them off later. But the bills quickly rose.

While his first two credit card accounts have been closed as part of the agreement with Auriton, he now has another card with a smaller credit line. "I don't go credit card crazy," he said. "I use it to get gas once or twice, the bill comes, and I pay it off and I don't worry about it. I learned my lesson."