

Presented January 2007

***University of Mississippi
Medical Center,
“Meet the Challenge”!***



**Choosing and Using Credit
Wisely**

What is Credit?

- “An arrangement for deferred payment of a loan or purchase”.

American Heritage College Dictionary

- Reminder: Credit is debt, *not* extra income.



Medical Student **Debt** Facts

- In a recent study by the Association of American Medical Colleges (3) the cost of private medical schools has risen 165% and the cost of public medical schools has gone up 312% over the last 20 years. A similar study by the AMA (4) found that medical school costs have increased substantially more than the Consumer Price Index (inflation). The average medical student graduates with nearly \$100,000 in student loan debt! Compound this with slow physician salary growth, young physicians are faced with increasing difficulty in paying their college student loans and medical student loans.
- The good news is that medical schools, and importantly the organization that licenses medical schools, recognize the problem. During the re-accreditation processes the LCME (Liaison Committee on Medical Education) asks every medical school how they intend to reduce medical debt. This puts pressure on the schools to either reduce costs or find creative ways to help students finance their debt.
- Contact the American Medical Student Association to learn of their financial resources.
1902 Association Drive, Reston, Virginia 20191
(703) 620-6600
Membership Hotline: (800) 767-2266
amsa@amsa.org

Source: Medical Resource Group

Eligibility for all financial aid (including loans) is based on the school's cost of attendance including tuition, fees, books, supplies, transportation, miscellaneous personal expenses, and may include special medical or child care costs; but it does not include consumer debt.

Dental Student **Debt** Facts

"Live like a dental student while in school, not a dentist." Makes sense, but it is easy to get in deep. Sure you are going to be making good money when you graduate, but you have to consider all of the other expenses you will have as well. With student loan payments of \$1,000+ there may not be much left over for the rent, car payments, food... It is easier said than done, but borrow only what you need to get by. This may mean that you will not be able to go out every night or go to the mall on the weekends. In the long run you will be better off, with loan payments a few hundred dollars less than you may have had.

- 91% of dental students graduate with an average debt of \$115, 951
- In 2001, over 55% of dental students reported receiving a scholarship or grant for their dental education. Be sure to ask your financial aid office and search online and in your community for scholarship/grant opportunities.
- Contact the American Student Dental Association to learn of their financial resources.
211 E. Chicago Avenue, Suite 700
Chicago, IL 60611
800-621-8099 ext. 2795

Source: American Dental Education Association

Myths/Facts about Credit Use

Myth: You can become debt-free by consolidating all your credit cards.

Fact: You cannot borrow your way out of debt!

Myth: You can take out more in a student loan, at a cheaper interest rate, to pay off credit card debt.

Fact: Consumer debt (including credit cards & car loans) cannot be included in determining your student loan eligibility.

Good Debt vs. Bad Debt

- Good debt helps finance long-term benefits, like home ownership and education.



- Bad debt provides short-term gratification, like a vacation or new outfit that's forgotten long before you've paid for it.



Credit Cards: Convenience

Reasons to use credit:

- Helps you establish a credit record
- Reduces need to carry cash
- Provides security in emergencies
- Extends purchasing ability for larger purchases

Credit Cards: Curse

Reasons to avoid excessive credit card use:

- Huge amounts of interest paid on unpaid balances
 - *Sometimes nearly doubling the repayment amount!!*
- Maxed-out credit cards cannot be used in a real emergency
- Unplanned (spontaneous) purchases disrupt budgeting and leave less for planned expenses
- Poor credit payment records stay on your credit report for 7 years and may cause denial of additional credit (private student loan, auto loan, apartment rental, mortgage, etc.)
- Emotional stress

Credit Cards vs. Student Loans

Similarities

Borrowed Money

- Using a credit card or taking a student loan means you are borrowing money (from credit issuer or lender) which must be repaid.

Interest & Fees

- You pay back the original amount purchased or borrowed plus additional charges, including interest & other fees (e.g. annual credit card fee, loan origination fee, late fees).

Credit Cards vs. Student Loans

Differences

Repayment Period

- Student loans are repaid over a **fixed** period of time.
- Credit cards are repaid over an **indefinite** (revolving) period of time.

Repayment Start Date

- Student loans - generally 6 months (or more) after leaving school – a grace period.
- Credit cards – immediately!

Credit Cards vs. Student Loans

Differences (cont.)

Monthly Payment

- Student loans generally have a **fixed monthly payment** for a specified period.
- Credit cards **require a minimum monthly payment** - usually 2-3% of the balance.
 - *Minimum required payment will vary, decreasing or increasing over time depending on outstanding balance.*

Example: Sam's \$5,000 Stafford Loan

- 3.5% interest
- Fixed payments over 10 years
- Repayment begins 6 months after Sam graduates.

Amount Borrowed	Monthly Payment	Total Interest	Total Repaid
\$5,000	\$50	\$920	\$5,920

Source: www.nelliemae.com/calculators

Example: Jill's \$5,000 Credit Card

- 19% interest
- Repayment begins *immediately*.
- Minimum payment is 2% of balance.
- Payoff takes **99 months (8.75 years)**, assuming no further credit purchases:

Amount Borrowed	Minimum Monthly Payment	Total Interest	Total Repaid
\$5,000	\$100	\$4,900	\$9,900

Source: www.bankrate.com
(Example is an estimate only. Assumes fixed \$100 monthly payments, although minimum required payment decreases over time.)

This example is only an estimate.

Note that total repayment of the credit card is nearly double the amount originally purchased. Compare the \$6,966 total repaid (and \$58 monthly payment) for a \$5,000 Stafford Loan to the \$9,900 total repaid for a \$5,000 credit purchase (and \$100 monthly payment). This example explains why paying for education expenses with a student loan instead of putting it on a credit card is a much better financial decision unless the credit card charges are paid in full within the month of the charge.

One More Credit Example...

Joe's Spring Break Trip to Jamaica

- \$750 VISA charges for airfare, shared hotel, food, etc.
- 19% interest
- Repayment begins immediately
- Minimum payment is 2% of balance
- Payoff takes **93 months or 7.75 years**, assuming no further credit purchases

Amount Borrowed	Minimum Monthly Payment	Total Interest	Total Repaid
\$750	\$15	\$645	\$1,395

Source: www.bankrate.com

Example is an estimate only. Assumes fixed \$15 monthly payments, although minimum required payment may be more.

This example is only an estimate.

Some credit card issuers may have a minimum payment of \$25 or more. This example is based on American Express Blue (for college students) which allows a \$15 minimum.

Obtaining the right Credit Card for you!

- Compare card offers (visit www.cardweb.com or www.bankrate.com) and look for:
 - *No or low annual fee*
 - *Low fixed interest rate beyond introductory period*
 - *Grace period that allows a certain amount of time (generally 25 days) to pay in full before interest charges are applied*
- Don't apply for a credit card just to get a free t-shirt, store discount or points (don't give in to consumer pressure!)

Most cards have “teaser” introductory rates that last only a few months.

Strategies for Using Credit Wisely

- Have only one or two major credit cards.
- Plan credit purchases (and payments) along with other expenses in a monthly budget.
- Always pay more than the minimum required payment, including *making a payment when none is due*.
- Pay in full whenever possible. (when you receive tax returns, bonuses, etc)
- Ask yourself, “Do I really need this or just want it??”

Explanation regarding the third bullet: If you make a payment in one month for double (or more) than the minimum amount due but you still have a remaining balance, many times the credit card company will send a bill the following month with a zero amount due. While it may be tempting to skip that payment, you should always make a payment (even when none is due) to help pay down the balance and reduce overall interest charges.

Strategies for Using Credit Wisely *(continued)*

- Don't take cash advances - often you'll be charged a transaction fee of at least \$20 or 5% of the amount you withdraw, plus regular interest.
- Keep credit limit low; don't accept credit line increases.
- Make payments on time to avoid late fees.
- When transferring a credit balance from one card to another, request that the original card be closed.

Strategies for Using Credit Wisely *(continued)*

- Get in the habit of checking your credit report:
 - www.equifax.com or (800) 685-1111
 - www.experian.com or (888) 397-3742 (888-EXPERIAN)
 - www.transunion.com or (800) 888-4213
 - *No fee if credit denial within preceding 60 days.*
 - *Review information carefully and notify credit bureau in writing (keep a copy for yourself) of any erroneous information.*

Debit Card: a Good Alternative

- Purchase amount is automatically deducted from your bank account.
- Offers convenience like a credit card, but you use your own money instead of borrowing.
- You must have enough money in your account to cover your debit purchase!

If you do not have a bank account, you can get a prepaid credit card from some lenders. Prepaid cards are just like debit cards because you make purchases using your own funds instead of borrowing.

Another type of card in which students may be interested is a “secured” credit card. Secured cards are designed for people with no credit history or a poor credit record. A secured card requires a deposit as security in case the user defaults on payments. The deposit generally earns interest. Because the card is designed for a higher risk population, interest and fees charged on secured cards may be higher than on a traditional credit card.

Warning Signs for Credit Trouble

- You pay your bill late
- You only pay the minimum due
- You often exceed the credit limit
- You use one credit card to pay off another
- You use a student loan to pay off a credit card
- You must work overtime to keep up with your bills

Where to go for Credit Help

- American Consumer Credit Counseling:
www.consumercredit.com or 800-769-3571
- National Foundation for Credit Counseling:
www.nfcc.org or 800-388-2227
- www.myvesta.org or 800-698-3782
- Avoid credit “repair” services that charge a fee and guarantee “fixing” a poor credit record.

Credit counseling help is available. If you are in credit trouble, then you should get help. The worst thing to do is nothing or to continue using credit indiscriminately.

Challenge Yourself

Before using a credit card, ask yourself:

- What would happen if you didn't purchase a particular item? If nothing, don't buy it.
- Could your purchase be delayed for another time? If so, delay it.
- Are you considering a purchase because you really need it or just want it? If you just want it, resist it.
- If you do need a particular item, is the less-expensive brand good enough? If so, choose it.

Follow these rules for using credit wisely so credit doesn't rule you!

Recipe for a Credit Cooler

1. Estimate what you need for cash from Friday through Monday
2. Withdraw that amount from your bank account
3. Place all your "plastic" (credit cards, ATM/debit cards) in a metal bowl
4. Fill bowl with water and place in freezer

Recipe for a Credit Cooler *(continued)*

- If you make it through the weekend without defrosting your plastic, you have lived within your means!!! Now try extending the recipe for a week, and more.
- If you end up frantically defrosting your plastic and withdrawing additional cash before Monday, you've blown your budget... If you can't successfully budget for one weekend, how will you do it throughout school and beyond?

...Food for thought

Questions?