



UNDERSTANDING *DEBT*

Managing your loans and debt.

ABOUT

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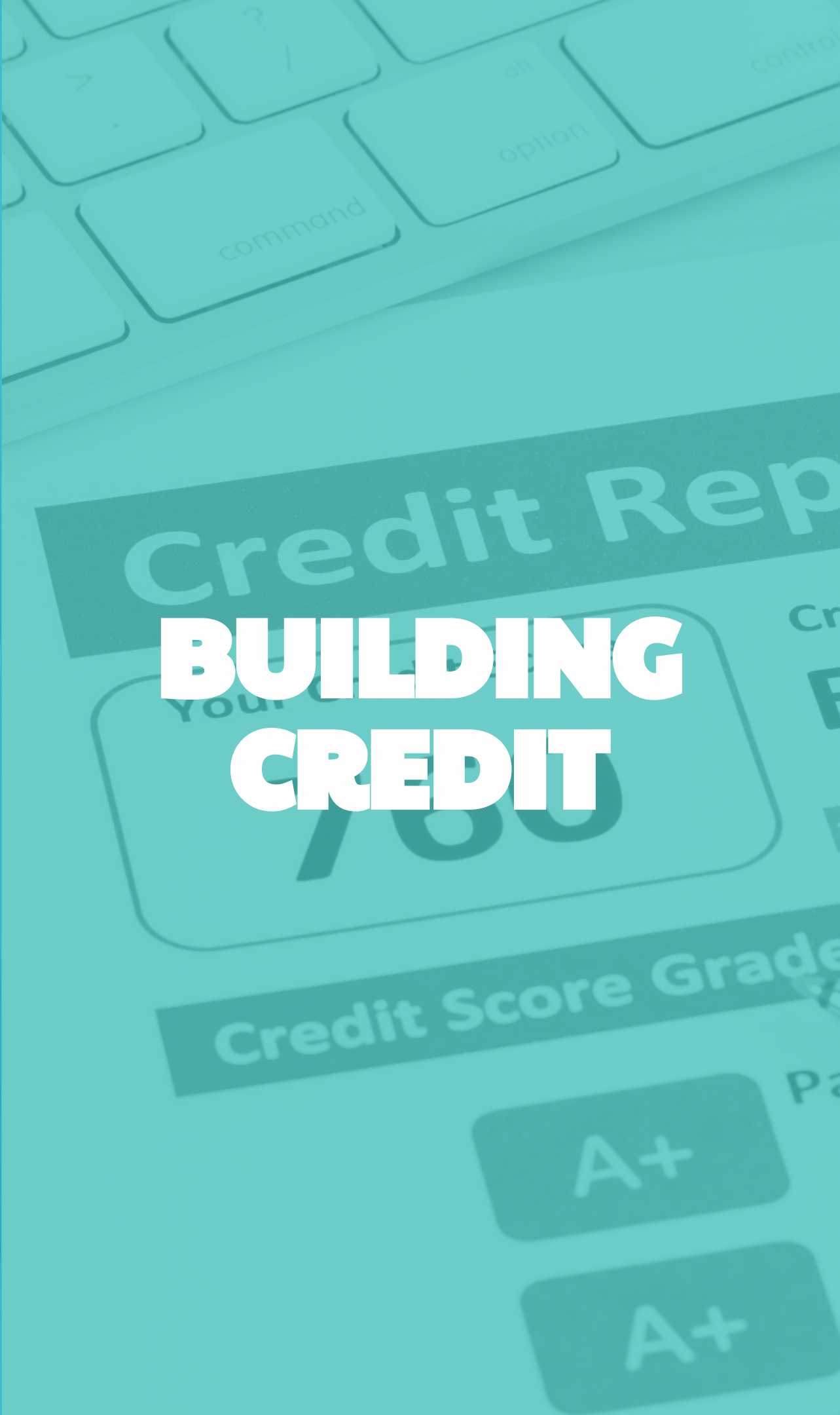




RESPONSIBLE BORROWING



MANAGING YOUR LOANS



BUILDING CREDIT

RESPONSIBLE BORROWING

Tips on how

- 🍃 **Plan ahead**
- 🍃 **Look at scholarships and grants**
- 🍃 **Make interest-only payments**
- 🍃 **Take advantage of tax benefits**
- 🍃 **Estimate the amount of debt you can afford**
- 🍃 **Contact your lender if you're struggling**
- 🍃 **Stay on Schedule**
- 🍃 **Prepay a student loan if possible**

 **Ask yourself:**

**What kind of debts
will I have?**

TYPES OF DEBT

Secured Loans

- Examples include mortgage, car loans, and business loans

Unsecured Loans

- Examples include credit cards, personal loans, and student loans*



Good Debt

- Typically lent by a bank to an individual or business
- Often secured



Bad Debt

- Often unsecured
- Typically used to purchase assets that depreciate in value

SCHOOL LOANS



Subsidized

Unsubsidized



Subsidized

- These loans receive an interest subsidy in which the government pays accruing interest on your behalf while you're enrolled in school and during periods of grace and authorized deferment.
- As of July 2012, direct subsidized loans (aka subsidized Stafford loans) are no longer available to graduate or professional students

Unsubsidized

- These loans accrue interest from the date of disbursement. If the interest is unpaid, it will be added back to the principal balance (original amount borrowed) at specific points via a process called capitalization. You are responsible for this interest.

UNDERSTANDING THE *Total Cost*



Consider the following:

-  **Interest**
-  **Capitalization**
-  **Length of Repayment**



Depending on the loan and when it was disbursed, interest rates can range from 5.3% to 7.9%

How Interest Accrues on Student Loans

Interest accrues daily on a student loan—from the day it's disbursed until the day the loan balance reaches zero.

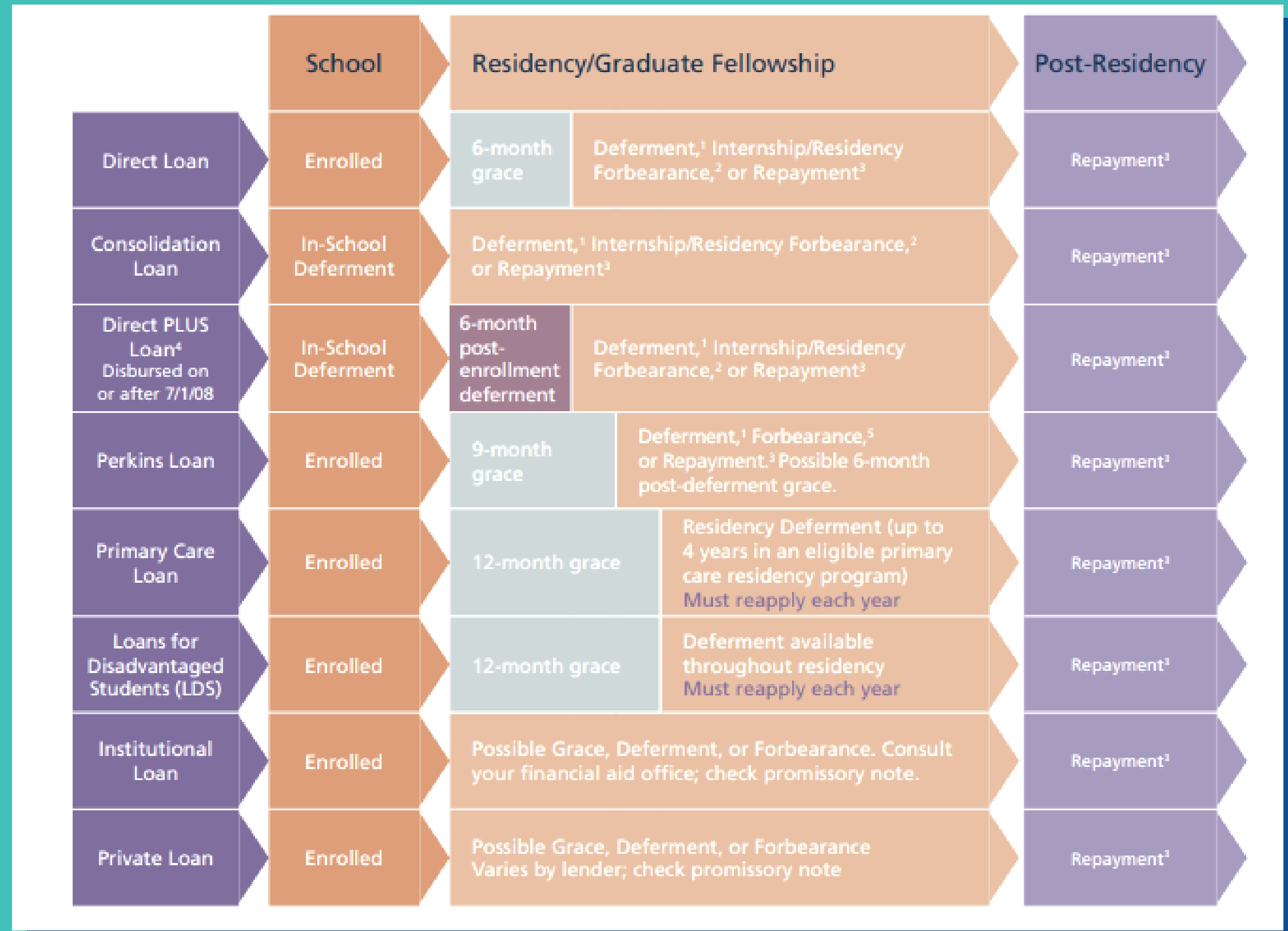
There is a simple formula to calculate your daily interest accrual:

$$\frac{\text{interest rate (in decimal format)} \times \text{current principal balance}}{\text{number of days in the year}} = \text{daily interest}$$

The day student loans are paid in full, the accrual of interest stops. You only accrue interest on the days you owe a balance, which means that paying off the loans aggressively can save you money in interest.



LOAN REPAYMENT TIMELINE





MANAGING DEBT REPAYMENT

Traditional Plans

Standard Repayment	\$2,570/mo
Extended Repayment	\$1,500/mo
Graduated Repayment	\$1,200/mo

Income-Driven Plans



Income-Contingent Repayment (ICR)	\$740/mo
Income-Based Repayment (IBR)	\$480/mo
Pay As You Earn (PAYE)	\$320/mo
Revised Pay As You Earn (REPAYE)	\$320/mo

Based on an original balance of \$200,000, entering repayment after four years of medical school and six months of grace. ICR, IBR, PAYE, and REPAYE are based on a stipend of \$56,800. (Values are rounded to the nearest 10.)

Prioritize high interest debt

-  **Credit cards**
-  **Personal loans**

Determine true cost of good debt




-  **Factor in deductions**
-  **Compare potential investment returns with the cost of debt**



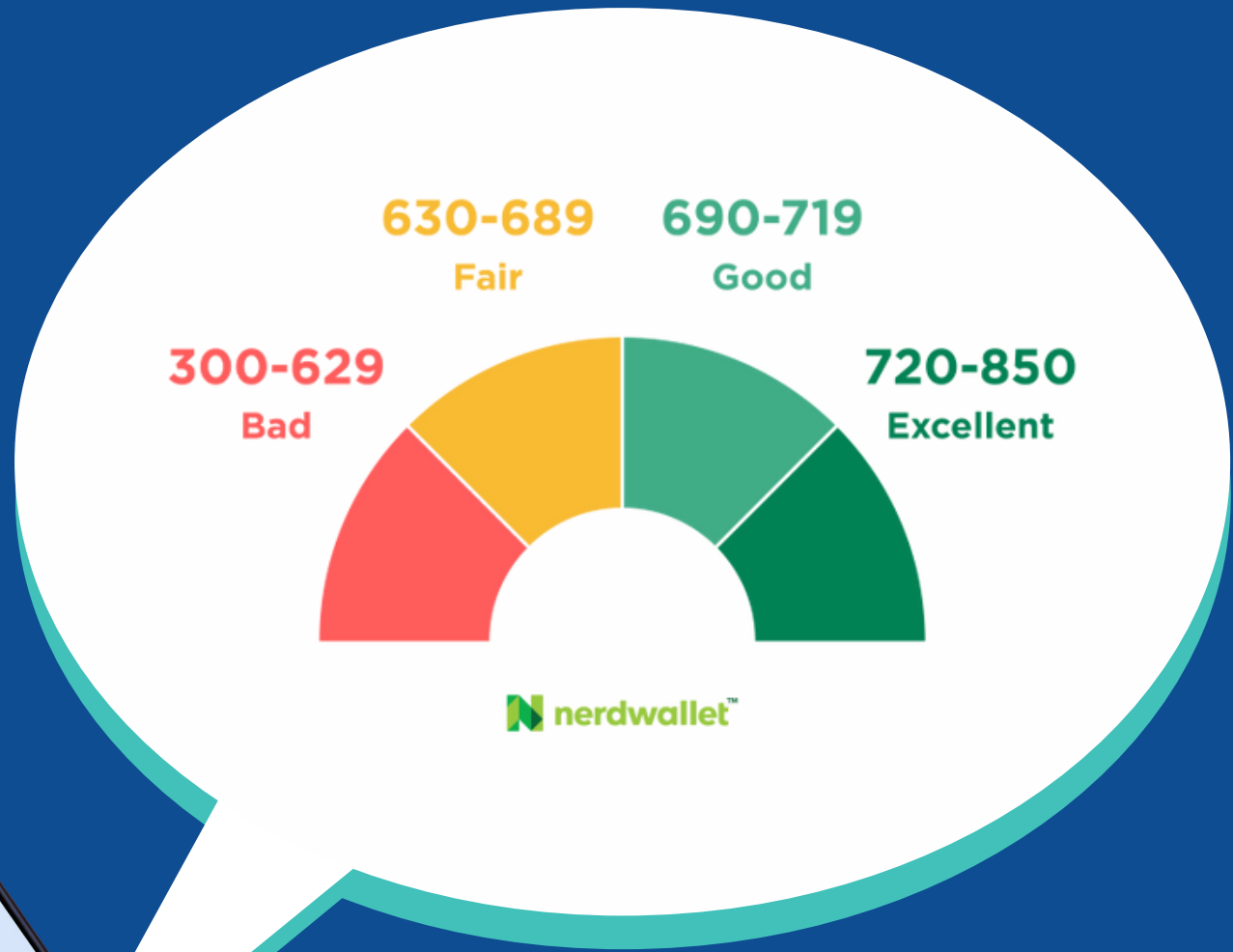


OTHER CONSIDERATIONS

Public Service Loan Forgiveness

-  **No income limitations**
-  **Need to be on an income-based repayment plan**
-  **Based on your income, you could pay off your debt prior to realizing any public loan forgiveness**





BUILDING CREDIT HISTORY

What is a FICO Score?



FICO Scores are calculated using many different pieces of credit data in your credit report. This data is grouped into 5 categories as you can see to the left.





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