



THE CONSUMER ADVOCATE

SPRING 2007

Time to Start Paying Your Student Loans?

Congratulations to the graduating class of 2007! Graduation offers hope for future opportunities to land your dream job, that may not have been offered without your valuable degree. As you begin life after graduation, it may feel a bit overwhelming to pay back your student loans. You may ask yourself "was this even worth it?" The answer is *absolutely*. According to the U.S. Census Bureau, the average college graduate will earn \$1 million more throughout their lifetime than those without a college education.

It would be ideal if your first job offered a paycheck that made it seem realistic to pay back your student loans, but for many this is simply not the case. As a result, the U.S. Department of Education offers many repayment options to accommodate individual needs. Carefully choose your best repayment option now and try your best to predict what is going to be best for you in the future as well.

Most college graduates are aware that after graduation there is a six month *grace period* before student loan repayment begins. The six month grace period offers graduates a chance to find a job and become accustomed to the changes in cost of living. Unfortunately, six months can go by fast and those dreadful student loan payments will quickly begin, so you must be prepared to start repayment.

Speak with your lender directly to determine the best repayment option for you. Consolidation is the most popular and most common student loan repayment option, but there are other alternatives to paying back student loans that may be a better fit for your individual situation. It is important to know all of your options before committing yourself to a repayment schedule.

- **Standard repayment** – offers a 10 year or less payment plan with the lowest possible interest rate. As a result, your monthly payment will be relatively high because the term of the loan is short. With this option, you pay the least amount in interest. However, you must also be able to sustain your cost of living, save for future endeavors (i.e. buying a home, car, etc.) and maintain monthly payments.
- **Income contingent payments** – schedules monthly student loan payments based on income. A pre-determined percentage of each paycheck will be applied toward the student loan. This option may be best for a low monthly income or a seasonal/commission based job. You may avoid feeling stressed about paying your student loans during difficult months because of the adjusted payment, but if you have a good month, you will not see the monetary benefits of a large paycheck.
- **Graduated payment** – provides low monthly payments for the first two years after graduation. Payments will then increase every few years thereafter. Ideally, your payments will increase as you annual salary increases. This payment option is best if entering a line of work with great

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opportunity for advancement. (If you choose this option, it is important to incorporate future personal and financial goals such as buying a house, having children etc. into a budget with a steadily increasing student loan payment).

- **Extended repayment** – provides a low monthly payment for 10 – 30 years without consolidation. A low monthly payment may be easy on a budget, but a longer repayment term will result in more money paid towards interest.
- **Consolidation** – is the most popular form of student loan repayment because it offers the convenience of one low monthly payment for an extended period of time (up to 30 years). The length of the consolidation loan is determined by the amount of debt owed and a repayment schedule of your choice.

Federal and private student loans are handled differently by lending institutions and therefore have different guidelines. Federal student loans generally provide the lowest interest rate since they are regulated by the government. Interest is capped at 8.25% with the possibility of a lower rate depending on loan rates prior to consolidation. (Speak with your lender directly to determine if you could benefit from an even lower interest rate).

Private student loans do not follow any Federal loan cap because they are not regulated by the government; as a result, interest rates are dictated by the lenders themselves. The lender is not required to consolidate, but the option may be available through a third party or the loan company directly. Federal and private loans *cannot* be consolidated together, but for a list of possible private loan consolidation companies visit www.finaid.org. Be sure to check with the State Attorney General's Office to determine the reputability of the company.

There may be other options to offset the cost of paying back your student loans that you may not be aware of.

Loan forgiveness: Some organizations offer to pay a portion of your student loans in exchange for service.

- * **Military:** Post graduates that enlist in the Army, Navy, or Air Force after college may be eligible for a loan repayment program through their respective branch. For each year of active duty, the military will pay 33 ½ % or \$1,500 (whichever is greater) on your student loan balance.
- * **Teach:** Some high need school districts offer monetary incentives to entice teachers into their school districts. They may repay a portion or all student loans in addition to your salary.
- * **Volunteer:** PeaceCorps volunteers offer student loan deferment on loans and may reduce up to 15% of the balance on Perkins loans. The domestic PeaceCorps, known as AmeriCorps extends an educational award for \$4,725 after successful completion of service. In addition, student loans can be deferred during this time.

*** If you consolidate your student loans, you may be *ineligible* for loan forgiveness programs.

If at any time during student loan repayment you are faced with an economic hardship, your loan may be eligible for deferment or forbearance. Both allow you to postpone payment for a specified period of time determined by the lender, although during forbearance interest generally accrues during the period of non-payment. You must contact the lender directly to apply for both postponement options.

There are a variety of repayment options available to you and it is important that you choose one that is going to be best for your budget now, as well as in the future. So before signing any repayment forms, consider contacting your university financial aid office, family and friends who are paying back their student loans to learn from their successes or mistakes. You can also contact the U.S. Department of Education at www.studentaid.ed.gov to determine what might be best for you and your future.



Free Checking Has Fees?

Free checking is commonplace in today's banking world, and if you do not currently have a free checking account, visit a local branch immediately to open one up. But in the real world, *free* generally indicates hidden fees. There are even a few hidden fees with free checking accounts that many people don't know about. Every bank has their own fees and perks, so be sure to research your individual account before you are caught paying fees for transactions or services you were *not aware of*.

Non-sufficient funds (NSF) fees are generally not included in free checking. NSF fees are accumulated if you write a check or use your debit/check card and the balance in the account does not have the funds to cover the withdrawal. An NSF fee is very costly, generally between \$15-\$39. For each NSF transaction, a fee will be incurred and if you have a few, they really add up! If you know that you do not have the funds in the bank to meet your monthly obligations, do not write the check and incur these unnecessary fees.

Stop payments are issued by the consumer after a check has been written and sent, but before it is cashed. Stop payments will help avoid NSF fees from the bank and a bounced check fee from the company the check was issued to, although the stop payment fee is pretty hefty (generally \$30). Plus, fees will be incurred for non-payment of the original debt and a late fee.

Overdraft protection is an option that can be added to a checking account which prevents you from bouncing a check. If a check or debit purchase is made without the funds in your checking account, overdraft protection will cover the negative balance of the purchase. Some banks charge a flat fee each time an account is overdrawn (which can really add up if you overdraft a number of times). Other accounts will link bank overdraft with a credit card so each time an overdraft is made, the amount of the overdraft will be charged to the credit card. If unable to pay the credit card in full at the end of the month, interest will be charged on the overdraft!

Many times checking account fees are incurred simply from mistakes in balancing a checkbook. If you incur these fees often, please contact DCC and one of our Education Counselors will review information on balancing a checkbook.

Lastly, the most **surprising fee** consumers find in regard to their checking account comes from using their debit/check card. Debit cards are often issued with a VISA or MasterCard logo on it and can be used as either a credit or debit card. Surprisingly, banks may charge a fee if you use the debit option instead of the credit option when making a purchase. In the end, the money for the product purchased will be withdrawn directly from your checking account, but the difference is the fee, (generally \$1.50). Therefore, always use your debit/check card as a credit card if the option is available.

In addition, **debit cards are not protected** under the same laws as credit cards if lost or stolen. If a credit card is lost or stolen, the consumer is only responsible for up to \$50 regardless of what the thief had charged on the card. Debit cards are currently offering the same protections, but they are *not required* to. If a debit card is lost or stolen and the thief makes many purchases and withdraws all of the funds in your account, the bank is not obligated to replace it. Therefore, be extremely cautious with your debit card. Protect yourself by committing your Personal Identification Number (PIN) to memory. Do not write it down! Also, be sure to report a lost or stolen debit card to your bank immediately.

All of these fees incurred from the bank, may have one long lasting cost for your financial future. The banks may report these debts incurred from your checking account to the credit reporting agencies which will imply you are an increased credit risk. As a result, if you apply for a loan or credit card, the interest rate extended may be high!

Every bank should have written information about fees that are assessed for each checking account. Visit your local bank and ask for a copy of the fee schedule for your checking account. If unhappy with the possible fees that you can incur, consider a different type of checking account or speak with a different bank to determine who will offer the greatest benefit and the least costly service to you.

Celebrity Sense

“Don't be
extravagant but
enjoy life.”

Jeff Greenfield,
CNN Political
Analyst.

**DEBT
COUNSELING
CORP.**

DCC
3033 Expressway Dr. N.
Hauppauge, NY 11749

Phone: 888.354.6332
Fax: 631.582.5085

www.debtcounselingcorp.org

Spotlight in the Community

In March, our education staff began a partnership with the **Peninsula Counseling Center**. We presented an array of financial topics including budgeting, understanding credit reports, and debt options for individuals on a fixed income. To further assist the participants DCC answered questions and provided valuable information and literature on their individual situations. We received excellent feedback from the attendees and DCC anticipates many events with the **Peninsula Counseling Center**.

What's New at DCC

DCC conducts monthly seminars on a variety of financial topics! Our seminars are open to all local clients and consumers. As a benefit to our clients, DCC offers an Educational Incentive Program for those who attend our monthly seminars. In the *month after you attend a DCC seminar*, DCC will redirect your monthly maintenance fee to a creditor of your choice. This will help to pay down your debt faster and save you a few dollars in interest! Please come join us at our Hauppauge office.

Mark your calendars for upcoming seminars.

- * **April 24, 2007 at 6:30pm** **Life After Graduation**
- * **May 22, 2007 at 6:30pm** **Understanding Credit Reports**
- * **June 26, 2007 at 12:30pm** **Survival Guide for New College Students: How to Manage Money and Stay out of Credit Card Debt**
- * **July 24, 2007 at 12:30pm** **Saving for Retirement: The Time is NOW!**

Seating is limited so please call 1.888.354.6332, ext. 317 to reserve your seat today. Refreshments will be served.



The mission of Debt Counseling Corp. is to educate the general public about debt management options such as budgeting, refinancing, and a debt management program; to provide consumers consistent, superior, individualized service; to provide each consumer with the tools they need to develop and modify a budget which

will allow them to maintain a dignified lifestyle.

Debt Counseling Corp. is also committed to assisting the creditors with collecting consumer debt by helping avoid bankruptcy whenever possible and eliminating their financial burden.