

## Balancing Wants, Needs, and Debt – Keeping It Real For Borrowers

Ohio Association of Student Financial  
Aid Administrators (OASFAA)  
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**How Do You Balance  
Wants vs. Needs?**

## Making the Distinction

- ▼ Need – something that you have to have
- ▼ Want – something that you would like to have
- ▼ Debt – that which is owed



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## When the Distinction is Not Made

- ▼ "Wants" are often financed with loans and credit cards
  - Short-term fixes such as cash advances are used
  - Debt increases
- ▼ More ATM and other bank-related fees are paid
- ▼ Little to no money is saved



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## Increasing Debt

- ▼ Seniors graduate with an average credit card balance of \$4,100<sup>(1)</sup>
- ▼ 21% of students owe a credit card balance between \$3,000 and \$7,000<sup>(2)</sup>
- ▼ 2007-08 average student loan debt was \$23,186<sup>(3)</sup>

(1) (2) Sallie Mae and Nellie Mae, 2009

(3) Finaid.com



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## Credit Purchases

- ▼ Percent of students using credit cards for these expenses:
  - Food – 84%
  - Clothing – 70%
  - Cosmetics – 69%
  - Travel – 46%
  - Gifts – 44%
  - Telephone – 27%

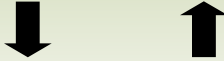
Source: Sallie Mae and Nellie Mae, 2009



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## Results of Increasing Debt

More students are  
facing hardships



Repayment obligations are  
becoming more difficult



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## How Are Students Swayed

What Influences Their  
Spending Decisions

## Influences on Students

- ▼ Reasons why students have a difficult time balancing needs and wants
  - Advertisements
  - Celebrity endorsements
  - Peer pressure
  - Familiar habits



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## Advertising at Work

- ▼ Goal of advertising is to increase peoples' desire for consumer goods or services
- ▼ Young people respond to visual advertising more than any other forms<sup>(1)</sup>
- ▼ They visualize themselves using the product or service
- ▼ According to the Nielsen Company, \$136.8 billion was spent on advertising in 2008

<sup>(1)</sup> [oppapers.com](http://oppapers.com), 2008



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## What Do These Athletes Have In Common?

Peyton

Kobe

Beckham



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## Paid Millions to Market

Peyton Manning

♦ Sprint ♦ MasterCard

Kobe Bryant

♦ Nike ♦ Guitar Hero

David Beckham

♦ Adidas ♦ Calvin Klein



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## Why Are Celebrity Endorsements Effective?

- ▼ Advertisers use celebrities because they are:
  - Likeable
  - Visible
  - Influencing
  - Idolized
- ▼ They have the ability to alter the actions of others<sup>(1)</sup>

(1) *Buzz.com, 2009*



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## Peer Influences

- ▼ Peer pressure is a powerful influence
- ▼ Those aged 18-24 are the most likely to give in to peer pressure
  - 41% admit they overspend to keep up socially
  - 60% overspend because they do not want to miss out

Source: *Moneyhospital.co.uk, 2007*



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## Spending Beyond Our Means

- ▼ Ways we spend beyond our means due to peer pressure
  - Buying a more expensive car
  - Shopping for clothes
  - Paying for someone else
  - Buying birthday, Christmas, or wedding presents
  - Dining at a more expensive restaurant

Source: [Moneyhospital.co.uk](http://Moneyhospital.co.uk), 2007



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## Familiar Habits

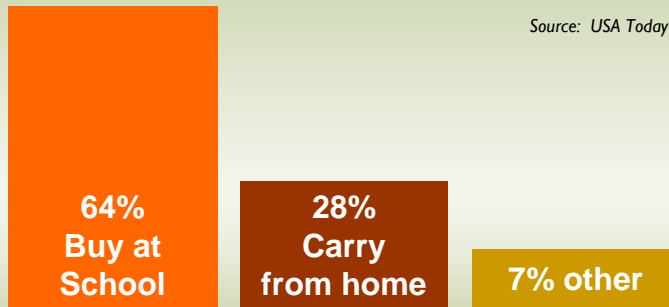
- ▼ Some students expect to maintain the same lifestyle from their childhood
- ▼ Familiar habits:
  - Dining out
  - Impulse buying
  - Vacationing
  - Shopping



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## Old Habits Are Hard to Break

- Where do lunches for 6-12 year olds come from?



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## Other Factors

- Students also spend too much money on "wants" because they have:
  - Little to no time to plan
  - Lack budgeting skills
  - Don't understand the cost of debt
  - Don't understand the impact of debt



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## True Cost of Debt

What Financing "Wants"  
Really Costs

## Cost of Borrowing

- ♥ Each additional \$5,000 borrowed adds\*
  - Approximately \$1,905 in interest
  - Approximately \$57 to their monthly payment

*\*Assumes 10-year standard repayment period and 6.8% interest rate*



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## Cost of Using Credit

- ▼ APR
  - Annual interest rate charged to unpaid balances
  - Many retail cards have APRs over 20%
- ▼ Finance charges
  - Amount paid to use credit
  - Assessed several different ways
- ▼ Fees
  - Array of fees assessed for various reasons



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## Is That Coat Really on Sale?

\$250 coat on sale at 20% off

Purchased with cash	\$200
Financed on credit card	\$248

21% interest rate  
\$10 monthly payment = 2 years to repay



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## How Much Does Spring Break Really Cost?



Airline ticket to Cancun	\$250
Hotel for four nights	\$200
Food	\$200
Entertainment	\$100
<b>Total expenses paid with CASH</b>	<b>\$750</b>

**Total expenses  
financed on CREDIT CARD \$1,397**

18% interest rate—\$15 monthly payments = 7.8 years to repay



**OASEAA**

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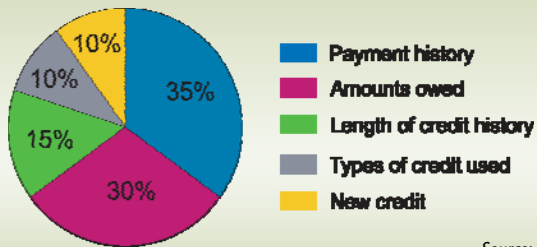


## How Debt Impacts Students' Credit

**What Paying Late and  
Owing Too Much Cost**

## Credit Scores

- ▼ 35% of the credit score is based on paying on time
- ▼ 30% of the credit score is based on amount owed



Source: [www.myfico.com](http://www.myfico.com)



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## Having Bad Credit

- ▼ Negative credit can impact students' ability to:
  - Rent an apartment
  - Purchase a home or car
  - Continue their education
  - Pay lower cost insurance
  - Get the job they want



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## Managing Credit

- ▼ Pay on time
- ▼ Pay more than the minimum
- ▼ Avoid over-extending
- ▼ Keep credit-to-debt ratio low
- ▼ Don't open too many credit card accounts
- ▼ Avoid balance transfers



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## How Students Can Balance Needs and Wants

What They Need To Know

## Seven Ways to Balance

- ▼ Organize expenses
- ▼ Budget
- ▼ Look for bargains and sales
- ▼ Sacrifice or at least be selective
- ▼ Plan ahead for big purchases
- ▼ Be honest
- ▼ Learn to say no



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## How To Reach Your Students

What Other Schools  
Are Doing

## Survey Says....

- ▼ Schools were asked the following questions in a survey conducted in 2009
  - How do you encourage your students to borrow conservatively?
  - Do you encourage your students to develop a budget and if so, how?
  - Do you caution students against excessive credit card usage and if so, how?
  - If you offer financial literacy programs on your campus, what type?



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## Encouraging Students to Borrow Conservatively

- ▼ Additional counseling
- ▼ Encourage students to complete FAFSA early to qualify for "free" money first
- ▼ Limit private loan borrowing
- ▼ Provide financial literacy programs



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## Encouraging Students to Develop a Budget

- ▼ Discuss consequences of over-borrowing
- ▼ One-on-one appointments
- ▼ Information during orientation
- ▼ Budgeting planning forms
- ▼ Financial literacy programs



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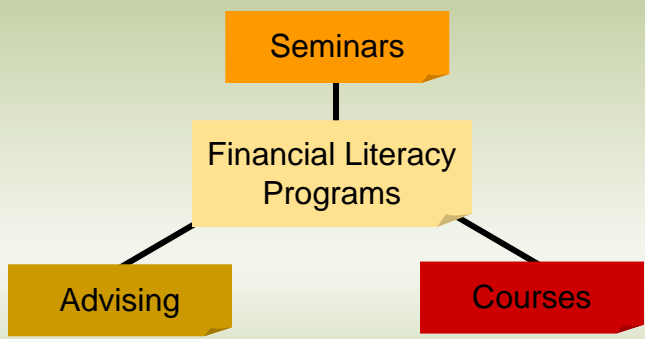
## Caution Against Excessive Credit Card Usage

- ▼ 74% offer something
  - In-person counseling
  - Informational sessions
  - Guest speaker presentations
  - Websites
  - Forms



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## Offering Financial Literacy



## Next Steps

## The Road to Your Students' Success

- ▼ Get involved!
- ▼ It's more than just a college degree
- ▼ Put them on a path to financial freedom
- ▼ Educate students
  - Financial literacy
  - Counseling
  - Budgeting tools



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## Utilize Your Partners

- ▼ Guarantors
  - Many have financial literacy resources you can use:
    - Programs
    - Brochures
    - Online tools
    - Experienced, certified trainers



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## Online Resources

- ▼ Annualcreditreport.com
- ▼ Jumpstartcoalition.org
- ▼ Mymoney.gov
- ▼ 360financialliteracy.org
- ▼ Feedthepig.org
- ▼ Nefe.org
- ▼ Ftc.gov



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## Questions?

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