Financial Literacy

Financial literacy provides a foundation for informed financial decision-making.

Financial Planning

What is the purpose of setting SMART Goals?

The SMART method helps push you further, gives you a sense of direction, and helps you organize and reach your goals.

S.M.A.R.T GOALS

S — **SPECIFIC**: What will be accomplished? What actions will you take?

M — **MEASURABLE**: What data will measure the goal? (How much? How well?)

A — **ATTAINABLE**: Is the goal doable? Do you have the necessary skills and resources?

R — **RELEVANT**: How does the goal align with broader goals? Why is the result important?

T — **TIME FRAMED**: What is the time frame for accomplishing the goal?

University of Mary Washington
Financial Aid

CONTACT US AT:

LEE HALL SECOND FLOOR
1301 COLLEGE AVENUE
FREDERICKSBURG, VA 22401-5300

FINAID@UMW.EDU
540-654-2468

BASICS OF BUDGETING

A budget is a plan you write down to decide how you will spend your money each month.

Expenses and Income are the two main components of a budget.

Expenses are how you spend your money while your income is how much you bring in a month.

EXPENSES:

- Rent
- Utilities
- Car insurance
- Food
- Gas
- Credit card bills

INCOME:

- Paycheck: Money your employer pays you for doing your job.

TRY CREATING A BUDGET WITH THIS WORKSHEET

HTTPS://CONSUMER.GOV/SITES/DEFAULT/FILES/PDF-1020-MAKE-BUDGET-WORKSHEET_FORM.PDF

Subtract your expenses from how much you make:

- If the number is less than 0, you are spending more than you make

Some benefits of budgeting helps you decide:

- what you must spend money on
- if you can spend less money on some things and more money on other things.

Income breakdown:

Pay stub: tells you how much money you earned

- Time or pay period you are getting paid for
- What taxes and other money have been taken out, or deducted from your pay

Gross pay: all the money you earned at your job; you do not keep all of your gross-pay. Your employer will take money out of your gross pay for taxes and benefits.

CREDIT

Credit History:

Your credit history describes how you use money:

- How many credit cards do you have?
- How many loans do you have?
- Do you pay your bills on time?

Credit report

A credit report is a statement that has information about your credit activity and current credit situation such as:

- your name, address, and Social Security number
- your credit cards
- your loans
- how much money do you owe
- if you pay your bills on time or late

You can get a free copy of your credit report every year. That means one copy from each of the three companies that write your reports. We recommend getting a credit report every 6 months and rotating where you get the report from.

TransUnion Equifax Experian

CREDIT

Credit Score:

A credit score predicts how likely you are to pay back a loan on time. Companies use a mathematical formula—called a scoring model—to create your credit score from the information in your credit report. It is important to know that you do not have just "one" credit score and there are many credit scores available to you as well as to lenders. Any credit score depends on the data used to calculate it, and may differ depending on the scoring model, the source of your credit history, the type of loan product, and even the day when it was calculated.

How do you get credit?

You will need to pay bills that are included in a credit report.

- Sometimes, utility companies put information into a credit report. Do you have utility bills in your name? That can help build credit.
- Many credit cards put information into credit reports.
    - Sometimes, you can get a store credit card that can help build credit.
    - A secured credit card also can help you build your credit.

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CREDIT

How do I improve my credit?

Only you can improve your credit. No one else can fix information in your credit report that is not good but is correct.

It takes time to improve your credit history. Here are some ways to help rebuild your credit.

- Pay your bills by the date they are due. This is the most important thing you can do.
- Lower the amount you owe, especially on your credit cards. Owing a lot of money hurts your credit history.
- Do not get new credit cards if you do not need them. A lot of new credit hurts your credit history.
- Do not close older credit cards. Having credit for a longer time helps your rating.

Why is a credit report important?

Businesses look at your credit report when you apply for:

- loans from a bank
- credit cards
- jobs
- insurance

If you apply for one of these, the business wants to know if you pay your bills. The business also wants to know if you owe money to someone else. The business uses the information in your credit report to decide whether to give you a loan, a credit card, a job, or insurance.

CREDIT

How do I fix mistakes in my credit report?

- Write a letter. Tell the credit reporting company that you have questions about information in your report.
- Explain which information is wrong and why you think so.
- Say that you want the information corrected or removed from your report.
- Send a copy of your credit report with the wrong information circled.
- Send copies of other papers that help you explain your opinion.
- Send this information by Certified Mail. Ask the post office for a return receipt. The receipt is proof that the credit reporting company got your letter.

The credit reporting company must look into your complaint and answer you in writing.

FRAUD & IDENTITY THEFT

Fraud Alert

A fraud alert requires creditors who check your credit report to take steps to verify your identity before opening a new account, issuing an additional card, or increasing the credit limit on an existing account based on a consumer's request. When you place a fraud alert on your credit report at one of the nationwide credit reporting companies, it must notify the others.

Identity Theft

Identity theft occurs when someone steals your identity to commit fraud. Stealing your identity could mean using personal information without your permission, such as:

- Your name
- Social Security number
- Credit card number

How identity can be stolen:

- steal your mail or garbage to get your account numbers or your Social Security number
- trick you into sending personal information in an email
- steal your account numbers from a business or medical office
- steal your wallet or purse to get your personal information

How to know if your identity has been stolen:

- **Read your bills.** Do you see charges for things you did not buy?
- **Watch your bank account statement.** Are there withdrawals you did not make? Are there changes you do not expect?
- **Check your mail**. Did you stop getting a bill? Or did you start getting a new bill you do not know about?
- **Get your credit report**. Are there accounts or other information you do not recognize?

SCAMS

Charity Scams:

A charity scam is when a thief poses as a real charity or makes up the name of a charity that sounds real in order to get money from you.

Imposter Scams:

Imposter scammers try to convince you to send money by pretending to be someone you know or trust like a sheriff, local, state, or federal government employee, or charity organization.

Debt Collection Scams:

Most debt collectors will contact you to collect on legitimate debts you owe. But there are scammers who pose as debt collectors to get you to pay for debts you don't owe or ones you've already been paid.

Mail Fraud:

Mail fraud letters look real but the promises are fake. A common warning sign is a letter asking you to send money or personal information now in order to receive something of value later.

TAXES

Helpful links regarding taxes:

Taxes:https://www.youtube.com/watch?v=7Qtr_vA3Prw

Tax Form: https://www.irs.gov/help/ita/which-form-should-i-use-to-file-my-taxes

Benefits of filing taxes:

- **Get your money back.** In some cases, you may get money back when you file your tax return. For example, if your employer withheld taxes from your paycheck, you may be owed a refund when you file your taxes.
- **Avoid interest and penalties.** You may avoid interest and penalties by filing an accurate tax return on time and paying any tax you owe in the right way before the deadline. Even if you can't pay, you should file on time or request an extension to avoid owing more money.
- **Protect your credit.** You may avoid having a lien placed against you when you file an accurate tax return on time and pay any tax you owe in the right way before the deadline. Liens can damage your credit score and make it harder for you to get a loan.
- **Apply for financial aid.** An accurate tax return can make it easier to apply for help with education expenses.
- **Build your Social Security benefit.** Claiming your self-employment income on your return ensures that it will be included in your benefit calculation.
- **Get an accurate picture of your income.** When you apply for a loan, lenders will look at your tax return to figure out your interest rate and decide if you can repay. If you file accurate tax returns, you may get a loan with a lower interest rate and better repayment terms.
- **Get peace of mind.** When you file an accurate tax return and pay your taxes on time, you'll know that you're doing the right thing to follow the law.

TAXES

UNDERSTANDING TAX TERMONOLOGY

FICA:

- Federal Insurance Contributions Act:
  - FICA is money the federal government takes out of our paycheck,
  - This money is used for the government's Social Security and Medicare programs.

W-2:

- A W-2 is a form your employer sends you at the end of every year. A W-2 says how much money you earned during the year. Your W-2 also says how much money was taken out of your paycheck for taxes during the year. You use your W-2 when you file your taxes with the Internal Revenue Service (IRS) and some states.

State Taxes:

- State income tax is levied by a state on a taxpayer's income that was earned in or because they live in the state. These taxes are used to pay the state's bills and provide certain state programs. Taxes vary by each state and not all of them follow the same tax system

Federal Taxes:

- Federal income tax is the tax imposed by the Internal Revenue Service (IRS) on the yearly earnings of taxpayers, corporations, trusts, and other legal entities. Federal income taxes are applied to all forms of income that make up a taxpayer's taxable income, like wages or capital gains.

LOANS

BORROWING FUNDAMENTALS

Interest Rate:

The interest rate is the lender's charge for the use of their money. The interest rate is usually a small percentage of the amount loaned. There are two different types of interest rates: fixed or variable (aka adjustable).

- **Fixed Rates** are just that: fixed and unchanging. If your fixed interest rate is 7%, it will be 7% for the life of the loan.
- **Variable rates** can change over time and are usually based on a standard market rate, such as the prime interest rate (which is the lowest rate of interest a bank can provide at a given time and place, offered to preferred borrowers).

Security Component:

All loans are either secured or unsecured. This refers to whether you are putting up assets, often referred to as collateral, to guarantee your loan.

- If you have a **secured loan**, it means you have guaranteed your lender will be repaid one way or another by giving them a claim on something you own. If the loan goes unpaid, the lender can seize the collateral to recoup their investment. This guarantee gives lenders a great deal of security and allows them to charge low interest rates.
- **Unsecured loans** do not require any collateral from the borrower. The bank therefore has no protection if the loan goes unpaid. Unsecured loans almost always have higher interest rates than secured loans. Lending institutions sometimes require that an additional person co-sign for unsecured loans, or vow to repay the loan if the borrower fails to do so. Student loans have an advantage in that no collateral is required but they still have low interest rates.

LOANS

BORROWING FUNDAMENTALS

Term:
The term of a loan is the length of time that the borrower has to pay back the loan. Most personal loans have terms of one to five years. Many student loans have 10-year repayment periods. Typically, the longer the term, the higher the interest rate. The term is the maximum length of time the borrower has to repay their loan; loans can always be paid off before the term is up.

Some questions to ask are:

- Is it necessary to accept the full loan amount that is offered?
- When does the repayment period begin?
- Does interest accrue while the student is enrolled in school?
- How long is the repayment period?
- When will a loan be considered delinquent?
- If a loan becomes delinquent, when will it enter default?
- Can a defaulted loan be rehabilitated?
- What are the repayment options and when is it necessary to select one (e.g., at time of origination versus upon graduation)?
- What can be done to reduce debt burden (e.g., pay interest or a small amount of loan principal) while in school?

Private Loans:
Private student loans are nonfederal loans made by a lender, such as a bank, credit union, state agency, or a school. They do not typically offer many of the benefits of federal student loans, such as fixed interest rates and income-based repayment plans. Borrowers of private loans also have fewer options for forbearance or deferment, and may have more difficulty getting back into good standing after default.

FEDERAL LOANS

WILLIAM D. FORD FEDERAL DIRECT LOANS

SUBSIDIZED LOANS

Direct Subsidized Loans are for students with financial need. The amount you can borrow is based on your dependency status, the number of credit hours you have completed, and the amount of financial need you have based on the Free Application for Federal Student Aid (FAFSA). No interest is charged when the student is enrolled at least half-time, during the grace period, or during deferment periods.

UNSUBSIDIZED LOANS

Direct Unsubsidized Loans are for students who do not have demonstrated financial need. However, the federal government does require students to complete the FAFSA. You can pay the interest while you are in school and during grace, deferment, and forbearance periods, or you can allow it to accrue and be capitalized (that is, added to the principal amount of your loan).

FEDERAL DIRECT PARENT PLUS LOANS FOR UNDERGRADUATE STUDENTS

Parents may borrow up to the full cost of education as defined by the Office of Financial Aid less any other financial assistance the student receives. Parent PLUS loan applications require credit check approval. Parent borrowers may request deferment while the student is enrolled at least half-time, and for an additional six months after the student ceases to be enrolled half-time.

FEDERAL LOANS

DIRECT PLUS LOANS

Direct PLUS Loans are available to graduate and professional students. Borrower must not have an adverse credit history.

- Interest is charged during all periods

GRADUATE LOANS

Direct Graduate Loans are for students enrolled in an approved degree-seeking graduate or professional program. A student enrolled in these programs is automatically considered “independent” for financial aid purposes. This means that they only include their personal information (not parent information) on the FAFSA. Students may receive up to the institutional cost of attendance with a maximum of $20,500 per year.

BORROWER RESPONSIBILITIES AND OPTIONS

FEDERAL DIRECT LOAN REPAYMENT OPTIONS

Standard Repayment Plan:

- Time borrower has to repay: Up to 10 years. (10- to 30-year repayment period for Direct Consolidation Loans)
- Payments remain constant throughout the repayment period.
- Borrower will pay less interest for the loan over time under this plan than he or she would under the other plans.
- The loan will be paid in full by the end of the repayment period.

Graduated Repayment Plan:

- Time borrower has to repay: Up to 10 years. (10- to 30-year repayment period for Direct Consolidation Loans)
- Payments start low and gradually increase every two years over life of loan.
- The loan will be paid in full by the end of the repayment period.

Extended Repayment Plan:

- Time borrower has to repay: Up to 25 years.
- Payments will be an amount that ensures the loan will be paid in full in 25 years. Borrower can choose to make either fixed or graduated payments.
- Borrower must have more than $30,000 in Federal Direct Loans to qualify.
- The loan will be paid in full by the end of the repayment period.

BORROWER RESPONSIBILITIES AND OPTIONS

FEDERAL DIRECT LOAN REPAYMENT OPTIONS

Income-Driven Repayment Plans (Income-Based Repayment Plan, Pay as You Earn Repayment Plan, and Income-Contingent Repayment Plan):

- Time borrower has to repay: Up to 20 or 25 years depending on the repayment plan.
- Monthly payment amount tied to borrower's income and adjusted annually.
- Any outstanding balance remaining at end of loan repayment period will be forgiven.
- Learn more about income-driven repayment plans at StudentAid.gov/idr.

PUBLIC SERVICE LOAN FORGIVENESS

The Public Service Loan Forgiveness (PSLF) Program is intended to encourage individuals to enter and continue to work full-time in public service jobs. PSLF allows certain borrowers who work in public service to qualify for forgiveness of the remaining balance of their Direct Loans after they have made 120 qualifying payments on those loans while employed full-time by certain public service employers. Details on qualifying loans and employment sectors can be found at StudentAid.gov/publicservice.