

# Money for Life

July 2009

Dear Readers,

## PAYING FOR COLLEGE

For many years, the cost to attend college has risen faster than the general inflation rate. It is no surprise that many college graduates owe tens of thousands of dollars on student loans and related debt.

Over a lifetime, the gap in earning potential between a high school diploma and a B.A. is more than \$800,000. According to a College

Board Study, *Education Pays*, that is more than a 60% difference in earnings. Whatever sacrifice you make for your college education in the short term are more than repaid in the long term.

Planning and saving for college should be something parents begin when their child is still very young. College loans can be costly. The best way to avoid those costs is to have your own college savings fund.

A state-sponsored 529 Plan allows families to maximize growth in a tax-advantaged account and reap the benefits of compounding small amount of money into a larger sum when the child graduates from high school. By setting up an automatic investment plan through your bank, monthly deposits to the college fund can be made automatically from your direct deposited paychecks.

Do your homework if you think you need a loan. The federal government loan programs, such as the "PLUS" loans for parents and Perkins and Stafford loans for students usually have fixed interest rates and some form of deferment on repayment until after graduation. There are also

loans available from private financial institutions and state government agencies. Ask if the loan is a fixed or variable rate and what could trigger a rate increase. Look for options for delaying payment until after graduation. Are there any policies on forbearance should you need to temporarily reduce or postpone payments in case of financial distress. Be sure to understand the pros and cons of any loan product.

You may be tempted to borrow against your home or retirement accounts to fund college for your child. Given the many ways to borrow for college at competitive interest rates, ask yourself if you really want to put your home or retirement at risk. And, your child has more time to pay off the debt than you do to recoup your losses.

The price of tuition, room and board should be an important part of the decision process along with the academic program of a school. For many, a two-year community college close to home can save on room and board, which is the most expensive part of attending a university.

Defaulting on student loans is a bad way to start your career. A damaged credit report will affect your ability to obtain new credit or even qualify for certain jobs. Once landing a job, it is important to set and stick to a budget that includes loan payments and build an emergency savings fund. Should something happen that affects your ability to repay loans, it is important to contact the lender immediately. Most lenders would rather work out some modified payment plan than have the borrower stop making payments completely. For more information on topics related to paying for college, visit [www.student.gov](http://www.student.gov).





## DEBT SETTLEMENT

The average American adult carries more than \$16,000 in debt, excluding home mortgages. That figure is likely to climb. Using a debt-settlement company is one option.

A debt-settlement company will attempt to convince your creditors to accept less than you owe, perhaps 50 to 60 cents on the dollar. That's very different from a credit-counseling company, which will attempt to help you pay back the full amount that you owe but with lower fees and interest. Your creditors might accept these terms if they believe that you will otherwise default on your loans. To increase its leverage, the debt-settlement company often will instruct you to stop making debt payments while it negotiates.

A debt-settlement company will not provide these services for free. Reputable companies charge mainly based on the amount that they save you – not the amount you owe – with an up-front fee of a couple of hundreds of dollars and 15% to 25% of the amount you will save.

The company should create a plan that will have you out of debt in less than 36 months. Any longer and creditors are more likely to sue than accept the terms. It is a good sign if the debt-settlement company has been in business at least 10 years and belongs to the Association of Settlement Companies.

You should be warned there will be drawbacks to using a debt-settlement company. You are likely to receive many calls from collection agencies and may even be sued by your

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lenders when you stop making loan payments. There are many disreputable debt-settlement companies that charge high fees but do little for their clients. You may owe income taxes on any debt that is forgiven. Working with a debt-settlement company will harm your credit rating. If you already are behind on payments to multiple creditors, entering debt settlement might not make a huge difference. But, if you have not missed any payments yet, debt settlement is the equivalent of defaulting on all of your loans and your credit score could drop by more than 100 points.

Debt settlement is a viable option only if your debt problems are so substantial that you see no other way to pay off your debts and if you take extreme care to use an honest debt-settlement company.

## KIDS AND MONEY

Much of what children learn about money is not consciously taught to them. Children pick up your values, attitudes, and money habits by watching and listening to you. In fact, you do not have to say anything to pass along money attitudes, habits, or decision-making styles.

If you shop with a list, your children will probably shop with a list. If you always spend money before it is earned, you may have a hard time teaching your child to save. Children learn from observing you and others. What are your financial attitudes and behaviors teaching your children?



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