Good Debt / Bad Debt

5

Good Debt / Bad Debt

Why should we be willing to re-examine these traditional views on debt?

6

Good Debt / Bad Debt

When we borrow money, we're presuming the future.

7

Good Debt / Bad Debt

Loans raise our required cash-flow requirements

- Need to make more money to service the debt
- Increases financial vulnerability
  - Hands all control over to employer
  - Job interview—position yourself to beat out the competition

8

Good Debt / Bad Debt

Take Control Back

- Try to pay school debt down while in school
- Position yourself to be able to afford to make less
  - What happens if you lose your job?
  - Are you in a position to take lower paying job—perhaps a job you might prefer?

9

Education: An Investment

What do we all know about investments?

10

Education: An Investment

Risk without research is just another form of *gambling*

Before jumping into any kind of investment, it's vital to conduct due diligence to accurately evaluate risk, the potential for gains, and the potential for losses.

11

Know Before You Owe!

Institute for College Access & Success:

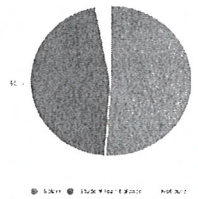
College graduates had an average of $29,200 in college loans—a record in the U.S—based on data for the class of 2018 for those with bachelor's degrees.

12

An Important Question

Recent grads' salaries sometimes outweighed by debt

Which is more, your current salary or your student loan balance?



dfcu FINANCIAL

13 | ©2016 DFCU Financial

13

An Important Question

Recent grads' salaries sometimes outweighed by debt

Which is more, your current salary or your student loan balance?

dfcu FINANCIAL

14 | ©2016 DFCU Financial

14

Know Before You Owe!

Mark Kantrozitz, publisher and vice president of research for Savingforcollege.com.

Typically, a general guideline is that you don't want to owe more than what you can make that first year out of college.

"*If total debt is less than annual income*, you should be able to repay your student loans in 10 years or less."

dfcu FINANCIAL

15 | ©2016 DFCU Financial

15

Know Before You Owe!

"General Guideline:"

'If you expect to earn $50,000 annually it means you can borrow $50,000'

dfcu FINANCIAL

16 | ©2016 DFCU Financial

16

Know Before You Owe!

That guideline advocates:

- Borrowing 100% of your first year expected salary
- $50,000 at current rates (6.08%) would generate a $557.11 payment a month over 10 years

High monthly payments cut into one's ability to save money or borrow for something else, such as a new car, or a first home. It also cuts into ones' ability to contribute to saving for retirement, or other pretax deductions.

At current rates (6.08%) borrowing $50,000 will cost $16,584 in interest. Total outlay: **$66,584** over 10 years.

17

Know Before You Owe!

Instead, what's likely to happen:

- If borrowing 100% of your first year expected salary
- A lower payment of $302.35 *will look desirable*
- $50,000 at current rates (6.08%) that payment will extend the term to 30 years!

At current rates (6.08%) borrowing $50,000 will cost **$58,847** in interest. Total outlay: **$108,847** over 30 years—more than the actual loan in interest!!

18

Know Before You Owe!

Anna Helhoski, writer and NerdWallet's authority on student loans, whose work has appeared in the AP, New York Times, Washington Post, and USA Today.

19

Know Before You Owe!

Anna Helhoski, writer and NerdWallet's authority on student loans, whose work has appeared in the AP, New York Times, Washington Post, and USA Today.

"Aim to borrow an amount that will keep your payments at around 10% of your projected after-tax monthly income…"

20

Know Before You Owe!

"If you expect to earn $50,000 annually your student loan payments shouldn't be over $279 a month.."

21

Know Before You Owe!

"If you expect to earn $50,000 annually your student loan payments shouldn't be over $279 a month.."

She is allowing for the subtraction of 25% for taxes, while also allowing about 10% for an employer health insurance deduction and/or a 401k contribution.

22

Know Before You Owe!

"If you expect to earn $50,000 annually your student loan payments shouldn't be over $279 a month.."

She is allowing for the subtraction of 25% for taxes, while also allowing about 10% for an employer health insurance deduction and/or a 401k contribution.

"That means you can borrow about $26,000 at current rates."

23

Know Before You Owe!

She's advocating:

- Not borrowing more than 50% of your first year expected salary
- The ability to save for retirement during the years you're paying down your student loans and for potential other pretax deductions
- A payoff close to 10 years

At current rates (6.08%) borrowing $26,000 will cost $9,274 in interest. Total outlay: **$35,274**

24

Recent Graduates Speak

57 percent said they regret taking out as many loans as they did.

36 percent said they would not have gone to college if they fully understood the associated costs.

Do you think this group did their research?

25

The Future of Student Debt

Why is it urgent to address student debt?

You're anxious to move on with lifecycle milestones

- Car, home, marriage, children

Unaddressed student debt WILL
negatively impact future financial mobility
when it comes to these lifecycle milestones.

40

Achieving Financial Success

We need to realize early in life…

Lifestyle expectations take shape

- The higher those expectations are anchored, the more we will spend.

41

Achieving Financial Success

High expectations result in two things

1. Prevention of more money going to paying down debt or going into savings.
2. Potential future disappointment as you begin to realize you can't support your chosen lifestyle—spending expectations—as you grow older.

Perhaps the way we were raised?

42

Deferred Gratification

Great way to bring down high expectations

Debt is nothing but borrowing financial prosperity from the future.

How might deferred gratification play an important part in the objective of reaching financial freedom from student debt?

dfcu

43 | ©2018 DFCU Financial

43

Financial Freedom

So what's the problem?

Problem is, many students don't WANT to defer lifecycle milestones. They'll assume (or attempt to) before it's financially prudent.

With what result?

Students can **negatively impact** future financial mobility when it comes to the very things they are seeking to secure!

dfcu

45 | ©2018 DFCU Financial

45