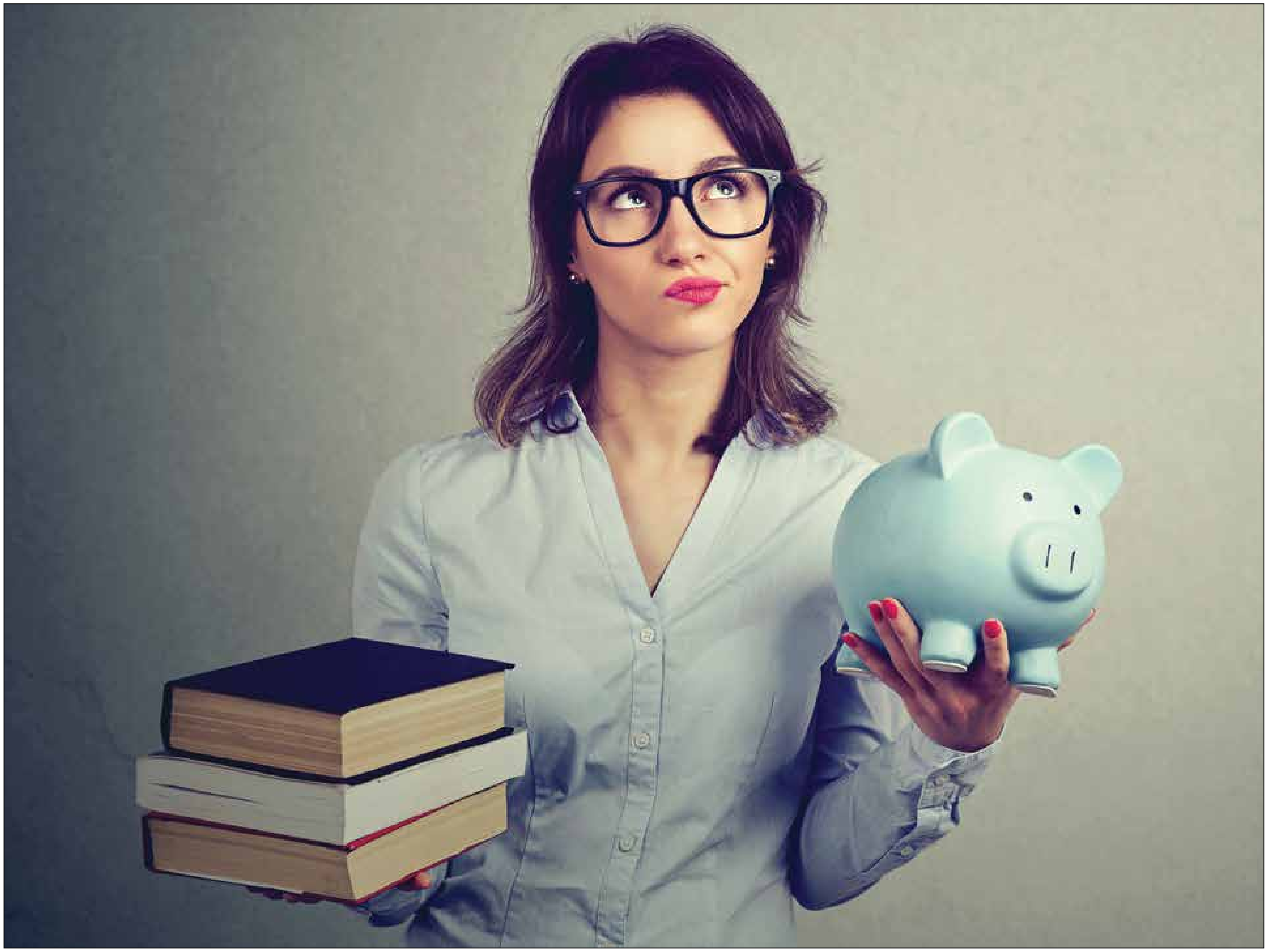
Personal
Finance

Understanding Student Loans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You've worked hard, applied to the right schools, wrote your essays and you got in to your top choice.

Now, you've got to figure out how to pay for it. If you apply for financial aid, student loans may be a part of your plan. These loans are money you borrow and must pay back with interest.

WHAT ARE STUDENT LOANS?

StudentAid.gov points out that student loans can come from the federal government, private sources or from other groups. Federal student loans usually have more benefits than loans from banks or private sources, the website says.

There are different types of federal student loans available. Some of them are direct loans, including direct subsidized loans, direct unsubsidized loans, direct PLUS loans and direct consolidation loans.

Subsidized loans are made to eligible undergraduate students who demonstrate financial need. These loans help them cover the costs of higher education and a college or career school. Unsubsidized loans are made to eligible undergraduate, graduate and professional students, but eligibility is not based on financial need.

PLUS loans are made to graduate or professional students and to the parents of undergraduate students to help pay for education expenses not covered by other financial need. A credit check is required and borrowers with an adverse credit history may need to meet additional requirements to qualify.

Direct consolidation loans allow you to combine all of your eligible student loans into a single loan with just one loan servicer.

HOW MUCH CAN I BORROW?

Several factors determine how much you can borrow as a student, including your status as a student. If you're an undergraduate student, you can borrow between $5,000 and $12,500 per year in direct subsidized and unsubsidized loans, depending on what year you are in school and your dependency status. Graduate and professional students can borrow up to $20,500 each year in direct unsubsidized loans. Direct PLUS loans can also be used as determined by your school.

Parents of undergraduate students can also take out direct PLUS loans to cover a child's college costs as determined by their school. You can borrow less than your school offers and request more loan funds later, if needed. Don't borrow more than you need.

What Does your Credit Score Mean?

A credit score is a three-digit number that sums up all the information in your credit report into one number.

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You may have two credit scores, one called a FICO score and the other a VantageScore. The FICO score dates from the mid-1980s, while the VantageScore is a more modern invention designed to produce a more consistent score across the three credit reporting agencies.

FICO SCORES

FICO scores, named for the Fair Isaac company that started them, range from 300-850. There's no definition of a good or bad score, but you can generally consider the mid-600s the dividing line between better rates and terms.

VANTAGESCORES

Vantage Scores, on the other hand, range from 501-990. Super prime borrowers have a score from 901-990, and they get a lender's best rates and terms for credit. Prime plus borrowers, with a score from 802-900, get good rates and terms. Prime borrowers score from 701-800 and get generally reasonable rates and terms. Non-prime borrowers score from 601-700 and high-risk borrowers get from 501-600. High-risk borrowers are generally not offered credit.

HOW IT'S CALCULATED

Both VantageScores and FICO scores weigh your payment history – if you've made payments on time – and the number of new credit inquiries in your history when they calculate your score. VantageScores, however, emphasize how much of your available credit you use. FICO scores, on the other hand, emphasize the length of your credit history and the types of credit you're using.

A home loan may score better than a store credit card, for example.

IMPROVING YOUR CREDIT SCORE

To boost your credit score, pay your bills – all of them – on time every month. Try not to use more than 30% of the credit you're approved for at any given time, and pay off any balances as soon as you can. Keep the number of credit inquiries in a year low. An exception is made for insurance, mortgages and auto loans because lenders expect you'll shop around for these products. You should also have a good mix of types of loans, including credit cards, auto loans and personal loans.

Savvy Savings

It's important to have a savings account — or two — and keep them funded as well as you can.

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These accounts can be an emergency fund or help you work up to a goal, such as owning your own home or starting a business. Here are some tips for how to save from AmericaSaves.org.

1. Start an emergency fund. If you're having trouble, start small. Go for an account with at least $500 in it, then work up to at least three months of expenses.

2. Set a budget. Start by getting real about your spending habits. On the first day of a new month, start getting a receipt for every purchase you make. At the end of the month, take a critical look at where your money's going.

3. Save automatically, if you can, by setting up automatic savings through your bank. It puts your cash out of sight and out of mind (and out of stores). You can ask your employer to do this through direct deposit.

4. Start saving for retirement as early as you can. Take advantage of employer matches to a retirement plan, such as a 401(k).

5. Save any unexpected windfalls or tax refunds. It's good to treat yourself, but also make sure you set some aside for a rainy day.

6. Use the 24-hour rule. Avoid purchasing expensive or unnecessary items by waiting 24 hours for anything nonessential. If you're shopping online, just add it to your cart and leave it there for 24 hours.

7. Calculate purchases by hours worked. Take the amount of an item you want to purchase and divide it by your hourly wage. This can help you visualize how many hours you'd have to work to buy it, and make you realize that some things aren't really worth it.

8. Check your credit report annually, for free. Use your annual free credit report from the three reporting bureaus to look for inaccuracies that can lower your score.

9. Pay your bills on autopay to ensure they are paid on time and in full to avoid late charges. Some loan providers may decrease your interest rate if you enroll in autopay.

10. Designate one day a week a no-spend day. Cook at home, plan free activities and enjoy the savings.

11. Plan your meals in advance and stick to a list while grocery shopping.

12. Take advantage of preventative health care to keep costs low and stay in front of any big health expenses.

Taxation 101

We all know the saying frequently attributed to Benjamin Franklin: There are two constants in life — death and taxes.

Of these two, taxes are easily the most complicated and, if some people are to be believed, sometimes cause the death (usually bypaperwork).

Keep reading to learn more about taxes, who pays them and what they're used for.

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TYPES OF TAXES

Taxes typically fall into one of three categories, the Tax Foundation says: taxes on what you earn, taxes on what you buy and taxes on what you own. All taxes start out as a dollar you've earned as income, but the difference is when you pay it.

TAXES ON WHAT YOU EARN

Income taxes are levied on the wages you or your household earn. Many income taxes are progressive, meaning tax rates increase as income increases.

Higher earners will then pay a larger share of income taxes than those who earn less. Corporate income taxes are levied on business profits, or a business's revenues minus the costs of doing businesses.

Payroll taxes are paid on the wages and salaries of employees to finance social insurance programs, such as Social Security and Medicare.

TAXES ON WHAT YOU BUY

Sales taxes are levied on goods and services at the point of purchase. You've probably seen a sales tax tally on your receipt at the grocery store. The U.S., the Tax Foundation says, is one of the few industrialized countries that still relies on traditional sales taxes as a significant portion of state and local revenue.

TAXES ON WHAT YOU OWN

Property taxes are one of the most common forms of taxation of things you own. They are levied on immovable property like land and buildings and are a key source of revenue for state and local governments, accounting for more than 30% of total local tax collections. Property tax revenue funds public services such as schools, roads and public safety programs.

Tangible personal property taxes are levied on things that can be moved or touched. Some of these things include business equipment, machinery, inventory, furniture and cars. These make up a small share of state and local tax collections, the Tax Foundation says.

Types of Insurance

If you've owned a home or a car, you probably know a little about insuring those items.

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But did you know about all the other kinds of insurance you can get? Try out these products for peace of mind.

LIFE INSURANCE

Life insurance gives you the ability to cover your funeral expenses and provide for the people you leave behind in case you die. This is especially important if you have a family that depends on what you earn. Life insurance, according to Investopedia, should cover 10 times your yearly income, but with all insurance, some is better than none.

Life insurance comes in two types: traditional whole life and term life. Whole life, as long as you pay the monthly premiums, will cover you until you die. Term life covers you only for a set amount of time. Talk to a financial professional about which kind is right for you.

FLOOD INSURANCE

If you live in a flood prone area or in an area that may become flood prone because of our changing climate, you should strongly consider flood insurance. Most traditional homeowners and renters policies don't cover floods, so you'll need to get that in a separate package. Most flood insurance is funded by the federal government, but can be purchased through your regular insurer.

LANDLORD INSURANCE

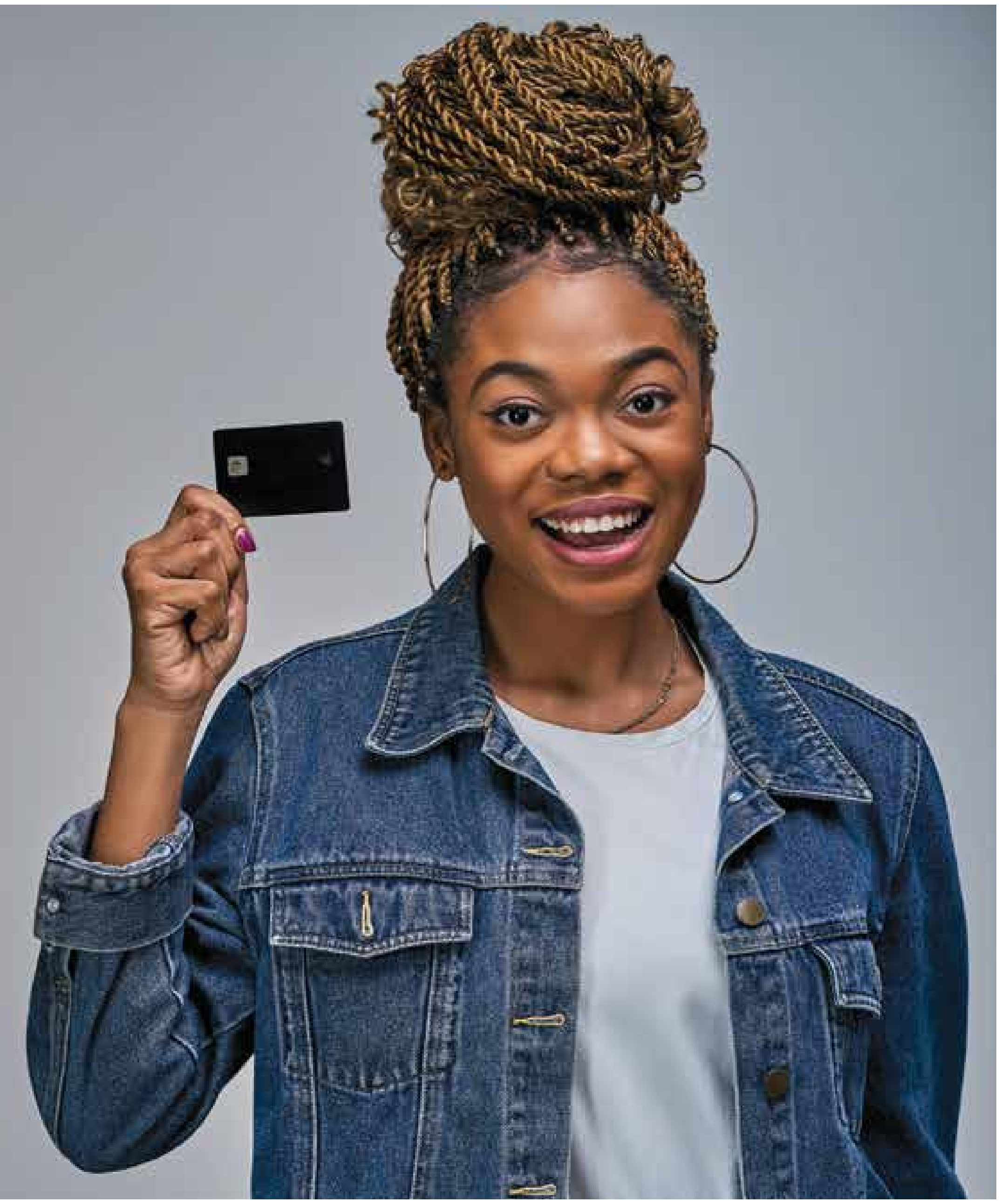
Renting out a property to a tenant comes with risks you can't control, but this type of insurance is here to help. These policies typically cover things such as fire, hail and lightning damage. If you're on the other side of the coin, consider renters insurance to cover your possessions. The landlord's policy typically doesn't do that, and renters policies are an economical way to make sure you're protected, too.

EVENT INSURANCE

Getting married or hosting another large, expensive event can be stressful. Take some ease with an event insurance policy that will protect your investments in the big day. Event cancellation coverage will reimburse you for lost deposits and other fees, up to your coverage limit. Liability coverage may protect you if you're found responsible for property damage or an injury caused during your event.

Common Credit Card Perks

More than a way to pay for unexpected expenses or rack up airline miles, many credit cards come with perks that you may not know about.



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Check your statement carefully or call your card issuer to ask for some of these common credit rewards.

CASH BACK

Many cards offer cash back for types of purchases or payments. There are, however, some pitfalls to be aware of. Some programs cap the cash back annually, cash back rewards and amounts can change on a regular basis or the cash back may depend on how quickly you pay off your balance.

DISCOUNTS OR GIFT CARDS

Another common inducement to open a card is a free gift card for opening an account.

Also look to see if your card gives you discounts with certain merchants or on certain types of purchases. This is similar to cash back, so some of the same warnings apply here, too.

INSURANCE

Some credit cards offer insurance on rental cars if the card is used to book the rental. Others offer insurance that makes payments on behalf of the cardholder if they can't make their payments because of a loss in income. Buyer beware, however. The Consumer Financial Protection Bureau has taken action against some of these policies for unethical practices in sales and distribution of these policies.

CELL PHONE PROTECTION

If you pay your cell phone bill with your credit card, that card issuer may offer cell phone protection plans to help offset the cost of repairing or replacing your phone. As with most perks, however, there is a but. Some cards cap their plans, so if you have the priciest new model, it may not be much help.

FREE SHIPPING

Online shoppers, take note. Some credit cards offer free ShopRunner access, giving you free two-day shipping with more than 100 online retailers.

Enroll for free with your eligible card and add to cart.

EVENT ACCESS

Always on the go? Your card may be able to help with that. Many credit card issuers will offer exclusive access to entertainment events, such as presale tickets, priority seating and complimentary access.

Know your College Savings Plan

Paying for college is a major financial goal of many families.

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The average cost of college in the United States, the National Center for Education Statistics says, is around $19,000 per student per year at public schools, $48,000 per student per year at nonprofit institutions, and $28,000 per student per year at private, for-profit colleges. Between the 2008-2009 school year and the 2018-2019 school year, prices for undergraduate tuition, fees, room and board rose 28% and public institutions and 19% at private, nonprofit institutions.

Scary? Of course. So here's what you need to know about college savings plans.

529 PLANS

A 529 plan is a tax-advantaged savings plan, also known as a qualified tuition plan. They are typically sponsored by states, state agencies or educational institutions. There are two types of 529 plans – prepaid tuition plans and education savings plans.

Prepaid tuition plans let a saver purchase units or credits at participating colleges and universities for future tuition and mandatory fees at current prices. They cannot usually be used to pay for future room and board and do not allow you to prepay for tuition at elementary and secondary schools. These plans usually have residency requirements for the saver or the beneficiary.

Education savings plans let a saver open an investment account to save for future education expenses, which includes tuition, mandatory fees and room and board. Withdrawals can generally be used at any college or university, sometimes even those outside the U.S. They can also be used to pay up to $10,000 per year, per beneficiary, for tuition at any public, private or religious elementary or secondary school.

529 PLANS AND OUR TAXES

Investing in a 529 plan may come with tax benefits, depending on the state and the plan. Many states offer tax benefits for 529 plan contributions, including deduction contributions from your income or matching grants. Withdrawals from a 529 plan are not subject to federal income tax and may not be subject to state income tax.

529 PLANS AND FINANCIAL AID

For many families, having a 529 plan will affect how much financial aid their child gets for college. For instance, the balances in 529 plans can be used to calculate some need-based funding. However, for many families, the bulk of their financial aid will come from student loans, and having the 529 plan can lessen the amount of debt their student will carry after graduation.