Your Money, Your Future

A practical money management guide for students and their families
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Your Money, Your Future (referred to as the “Guide” throughout) was created to assist potential student borrowers and their families in making decisions regarding money management.

The Guide is intended for students who are considering attending or are already enrolled in a tertiary education institution (tertiary education includes university, technical and vocational training, and any other studies completed after secondary school). The Guide covers topics such as student loans, goal-setting, repaying debt, and aims to educate students – and their families – in ways that will make them better money managers and more responsible borrowers throughout their university careers and beyond.

Many of the topics raised in the Guide will be completely new to you and some may not seem directly relevant to your current financial situation. However, preparing to make smart financial decisions early in your life will lead to fewer mistakes and more opportunities to be financially successful in the future. Additionally, information covered in the Guide may be important for your parents, particularly in the scenario where you and your family would incur debt in the form of a student loan. Therefore, it is critical that you take time to share this information with your parents. They may be able to offer insight on the lessons they learned throughout the course of their lives and may also benefit from new concepts raised in the Guide.

The most important thing to remember when working through the Guide is that there is not one right approach to managing your money. As discussed throughout the Guide, everyone has different goals and ambitions, and consequently, will save, borrow and earn money differently. This Guide will teach you basic concepts and knowledge about financial management. It is intended that this foundation will empower you to make the right financial decisions now and in the future so that you can achieve your goals.

For the purposes of illustration, the Dinar (a currency used in several countries) is referred to throughout the Guide. However, the content of this Guide is transferable across countries and their respective currencies.

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Chapter 1: Basic Financial Issues

Your Money, Your Future
Chapter 1: Basic Financial Issues

For many people, money concerns are at the top of the list of anxieties that preoccupy their daily thoughts. Why does dealing with money seem so problematic? It could be because very few people have had the opportunity to be educated in personal financial matters. Lack of financial education is especially common among young adults, who may be earning income, borrowing money or thinking about their financial future for the first time.

Without proper financial education, young adults make uninformed decisions that usually result in a pattern of poor financial management. As personal finance becomes more complex and people have access to credit at a younger age, it becomes apparent that learning how to manage money has evolved into a life skill – like reading or writing.

This Guide will provide you with an overview of the most essential personal finance topics, from goal setting to understanding student loans, to budgeting your money, to credit basics. This information is presented as an educational tool to assist you and your family in making wise financial decisions as you commence your university studies and throughout your lives.

For many young adults, a student loan may be the first significant loan for which they are responsible. Entering the world of finance will involve many such decisions; some of which may have implications for many years to come. However, knowledgeable consumers usually make more intelligent decisions than consumers who are less informed. After having read and studied this Guide, you will be equipped with the knowledge and skills to help you navigate the world of personal finance and hopefully avoid making costly money mistakes.

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Setting Goals

Personal finance is about setting goals, making choices and following through. In the next few years, you will find that managing your money will become an increasingly important part of your life. Even if you do not have much cash to work with now, it is well worth it to start learning all you can about how to manage your money. When you begin to earn an income, you will be aware of your options, what mistakes to avoid, and what steps to take to achieve the best possible outcome. Those who start planning early will be poised for financial success.
When it comes to setting goals, many people neglect to create financial goals. They develop goals for other parts of their life such as major area of study while in university, desired profession, marriage plans, or summer vacation. But when it comes to money, they earn it and they spend it without a plan. Usually when they earn more money, they spend more as well. In this scenario, if they had a plan, they might elect to use their additional income to increase their savings or to pay down their debt obligations.

The first step in setting financial goals is to decide what goals are important to you. No two people are identical in their goals and aspirations. You may wish to save money for a car, a mobile phone, clothes, a computer or the future purchase of a home. There is no right or wrong answer regarding which goals are the best for you. It is a personal decision to be made after much reflection on your current financial situation and what you would like to accomplish in the future.

Opportunity Cost

Opportunity cost is the value of the next best choice that one gives up when making a decision. By definition, any decision that is made causes other decisions that could have been made to be abandoned. If one drives north, they cannot drive south. In another instance, if a family decides to use 1,000 dinars to add an extra room onto their house, the opportunity cost is some other thing for which the 1,000 dinars could have been used. In choosing to add the extra room, the family might have forgone the opportunity to take a family vacation or replace an aging car with a newer one.

Electing to continue your studies also involves an opportunity cost. If you decided NOT to pursue your education, what would you do instead? Would you get married, find a job, or travel? In addition to short-term trade-offs, what would be the long-term trade-off if you decided to abandon the higher education goal? Would you be trapped in lower paying jobs and / or have fewer job opportunities?

Data from many countries illustrate the positive link between higher education levels and unemployment. For example, in Chile, higher unemployment rates exist among those with only secondary or incomplete college education.¹

Other research shows the impact between education level and salary/job quality. For example, in Brazil, on average the salary of a college graduate is worth almost three times the salary of a worker with a high school diploma.² Furthermore, in Egypt among both males and females with a secondary education and above, the quality of their first job was substantially greater than among those with less than a secondary education. This data confirms a correlation between a higher education and increased and better quality job opportunities.³

¹Source: OECD and World Bank. Tertiary Education in Chile, 2009
²Source: Alberto Rodriguez. Knowledge and Innovation for Competitiveness in Brazil, 2008
³Source: Ragui Assaad and May Gadallah. Pathways from School to Work for Egyptian Youth, 2009
Your decision to pursue and attain a higher degree is not one to be taken lightly. It is a choice that will be instrumental in the direction your life takes in the years to come. This decision should always precede the discussion about funding. If you decide that a university education is one of your life goals, you will then find a way to pursue it — regardless of the financial obstacles. Student loans provide one alternative way to make higher education more affordable (See Chapter 3).

Write Down Your Money Goals

The best way to accomplish a money goal or objective is to write it down. The simple act of writing the goal on paper makes it more tangible and allows you to organize and prioritize. Once the goal is written down, the mind starts working on ways to make this goal a reality.

Once you choose a general goal, you should write down the steps needed to achieve that goal. By breaking up the goal into manageable pieces, it will not seem so overwhelming. For example, you may decide to allocate an amount of money to be put toward your goal every month. If you consistently put the money away in your savings, you will have the money your goal requires by the end of the time period needed to reach your goal.

If this monthly savings amount is too high for your budget, you may have to extend the time period needed to save the total amount. Almost any goal is possible if you are willing to adjust the monthly amount saved or the time period required to achieve your goal. The only other factor for success is having the will to succeed and making sure that your chosen goal is not an impossible one to achieve.

Money Should Not Be a Taboo Subject

Do not be afraid to ask questions. There are no wrong questions when it comes to making an important financial decision. When it comes to money, the more it is discussed, the better it is understood. Sometimes people are embarrassed to ask questions if they do not understand financial transactions. They feel that they should already know the answer. Therefore they opt to remain confused rather than risk sounding like they are not financially savvy.

This logic incorrectly assumes that others understand money better than you do. Just because someone is a professional, does not mean that he or she knows how to manage their own money. Further, a high-income individual may not be a successful money manager. His or her financial bottom line may be much worse than someone from a lower-paying profession. It is not a matter of how much you earn, but rather what you spend in relation to what you earn that counts.

Resolve to talk about money as much as possible. Talk with your family and representatives from your local bank. Setting a budget, debt reduction, investment strategies and cost-cutting ideas are ideal topics for money conversations. The frequency of these conversations and the comfort level you have with discussing your finances will almost certainly have a direct correlation. The more you talk, the more comfortable you will be.
Any time you spend money, it is a financial activity, right? And any time there is a financial activity there is some sort of financial decision involved. Some are relatively minor: How much should I give the waiter for a tip? Should I go see a movie, or wait for it to come out on DVD? In these cases, how you decide to spend your money is not likely to have a big impact on your financial wellbeing. (Of course, these minor decisions and activities can quickly add up, and their cumulative effect can be significant!)

Still, there are some financial decisions and activities that can have a major impact all by themselves. Should I enroll in a university that will require me to obtain a loan? Should I buy a new phone?

<table>
<thead>
<tr>
<th>Minor Financial Activities</th>
<th>Major Financial Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movie or DVD rental</td>
<td>New cell phone</td>
</tr>
<tr>
<td>Bus ride</td>
<td>University education</td>
</tr>
<tr>
<td>Coffee</td>
<td>Automobile</td>
</tr>
</tbody>
</table>

When you are young and live with your parents, your financial decisions and activities are probably all minor (even though they may not always seem that way!) When you leave home, they increase in number and complexity. So what about now? What kinds of financial decisions and responsibilities do you have? How do you typically spend your money?

**Figure Out Your Finances**

Follow these steps to help identify and analyze your recent financial decisions and spending activities. Examining your financial activities and decisions will help you better manage your finances now and in the future.

1. List your financial activities and decisions over the last month. Your list should provide a picture of how you spend your money and what kind of financial responsibilities you have. Do not worry about organizing your list — simply write down whatever comes to mind. If there is a consistent activity, such as buying lunch, just list it once.

   ______________________________________________________
   ______________________________________________________
   ______________________________________________________
   ______________________________________________________
   ______________________________________________________
2. Organize your list. Look at your list and group the financial activities and decisions, similar to the example below. Create different groupings, such as:

- Relative size of the activity/decision — Is it a minor spending activity/decision? Is it a major activity/decision?
- Frequency of the activity/decision — Are there some activities/decisions that occurred often during the past month? Some that occurred only a few times? Some that happened just once?
- Necessity of the spending — Are there some activities/decisions that you had to do? Are there others that you chose to do?
- People involved in the activity/decision — Is it an activity/decision that involved only you? Is it one that involved others?

<table>
<thead>
<tr>
<th>Activity</th>
<th>Major/Minor?</th>
<th>Frequency?</th>
<th>Necessary?</th>
<th>Others Involved?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lunch at school</td>
<td>Minor</td>
<td>Daily</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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</tbody>
</table>

3. Look for patterns and differences. Are certain activities and decisions consistently grouped together? For example, are those related to entertainment or those involving friends often together? What other patterns do you detect? How are your spending decisions and activities different from one another?

Take It Another Step

Speculate on your alternatives. Another way to look at your financial decisions and activities is by thinking about what your alternatives were. Pick five items from your lists and figure out what you could have done differently. What if you had chosen not to spend your money the way you did? These alternatives are not necessarily positive or negative. As discussed earlier in this chapter, these alternatives are often referred to as your opportunity costs.

Look backward and forward. What if you followed these same steps when you were 12 years old? What items would have been on your list? What would some of your opportunity costs have been? What about when you are 30? What do you speculate the items on your list would be? Opportunity costs?

Now, here is a BIG question for you: What do you think is consistent about financial decisions and activities no matter how old you are? What do you think changes as you get older? Is it the number of decisions? Is it the relative size of the decisions?
Chapter 1 - Activity 2
Setting Goals for your Future

Where do you envision yourself in five years? How about ten years? When will you finish university? Are you working in your chosen career field? How will you get there? What will it cost? Reflecting on your daily life can help you prioritize what is important to you and what you might want to change.

Take, for example, that afternoon coffee that you like to buy. It does not cost much each day, but if you think about it, you probably spend a lot more on coffee over one year than you imagined. If one of your goals is to pay for university, you might consider putting your coffee money into savings instead of spending it one coffee at a time. Though some of these everyday actions and financial decisions may be things that you really do enjoy, your priorities might change when you consider your future.

Looking at the Long-Term

Follow the steps below to help you think about your goals for the future, and the financial goals you will need to set in order to achieve them.

1. Answer the following questions to develop a baseline for your ideal future, keeping in mind that you will use the answers to these questions to help define specific goals for yourself.

   a. Where do you want to go to university? How long will it take to earn a degree?

   b. Where will you live while in university? (At home? At school? Off campus?)

   c. How much money do you think it will cost to attend university? (tuition, books, fees, etc.)

   d. How will you pay for school? (Parents? Loans? Work?)

   e. What might you have to give up if you go to university? What are the opportunity costs?

   f. What type of career would you like after university?
2. Create a list of long-term goals for yourself based on your answers to the above questions. How long might it take to achieve these goals? How much money might be needed to achieve these goals? (At this point, it is fine to just guess.)

<table>
<thead>
<tr>
<th>Goal</th>
<th>Length of Time Needed</th>
<th>Amount Needed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Graduate from a two-year course</td>
<td>Two years</td>
<td>10,000 dinars</td>
</tr>
</tbody>
</table>

3. Consider some of the themes that run through your goals. What are some of the main focuses? Can some of your goals be grouped together? What smaller goals would you need to accomplish in order to reach some of the bigger goals?

Take It Another Step

Discuss your goals with your parents. Ask them about some of the goals they had at your age. Did they consider going to university? How did they accomplish their own goals? What obstacles did they face? Were their own parents supportive of what they wanted to do with their lives? What are some of the goals they still seek to achieve?

Define your learning goals for this Guide. Take a moment to think about the learning goals you have for this Guide. Write them in the spaces below. Then, as you complete Chapters 2 – 7, determine whether the Guide is helping you achieve the levels of learning you desire.

________________________________________________________________________
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________________________________________________________________________
Chapter 2: Creating and Managing a Budget

Your Money, Your Future
Although you may not yet have a source of income, understanding how to prepare a budget is a critical element of becoming financially literate. Talk to your family about this chapter. Work with your parents on their household budget so that you can be aware of different costs and expenses that you will incur in the future and how this relates to your future income.

If the word ‘budget’ conjures up images of deprivation, think of it not as some unpleasant chore or way to deny yourself, but as an empowering way to reach your financial goals. Creating a budget is analogous to cleaning a messy room. Although the actual task of cleaning may be time consuming, the end result is that your room is organized and in order.

This is important because too often people overspend without even realizing it. For example, if you are able to supplement your income with money from your parents or with money from loans, these funds may sustain an overspending situation. A budget will expose the true situation, which has three possible outcomes:

1. You spend more than you make.
2. You spend every dinar you make.
3. You spend less than you make.

Creating a budget is particularly important if your life situation has changed because of events that prompt more independence such as attending university and eventual relocation from your parents’ home. Future events like a first full-time job, marriage or new baby will lead to even more self-reliance over your financial affairs.

These major events may alter your finances dramatically. Throughout your life, as you journey through different life stages, the one constant map that will continue to provide you with direction — is your budget. A sensible budget will always allow you to take control of your money and not veer from your course.

Remember, a budget is a tool to help you plan, prioritize, and manage your income and expenses. You need to review your budget often and update it whenever you experience a change in circumstances.

Here are a few tips to help get you started:

- Budgeting is not difficult, but getting started does take motivation. Promise yourself a reward for your efforts.
- Pay for items you need before those you want. Basic needs like food, shelter, medical
expenses and taxes should be paid first. Anything left over can then be used for discretionary spending.

- Some expenses fall into both categories; they are both a want and a need. Shoes are a necessity but 20 pairs are not. Strive to limit your purchases to actual needs.
- There is no right or wrong way to allocate your money. We all have different financial goals that we are striving to achieve.
- Do not give up. If you fall off your spending plan one month, readjust your spending the next month. The important thing is that you keep your ultimate financial goals in mind.
- Budgeting takes practice and discipline but gets easier once you get in the habit and see positive results.

Step 1: Develop a Spending Plan

A spending plan, or budget, is your first step toward building financial responsibility. A spending plan organizes your estimated income and expenses over a set period of time — normally a month. Creating a budget means tracking your personal cash flow — that is, how much money comes in and how much goes out.

A Spending Plan Can Help You:
- Stay out of debt
- Identify areas of potential savings
- Provide a cushion for unforeseen expenses
- Save money for long-term goals
- Avoid impulse spending

Adding up your monthly income is usually relatively easy, but adding up all your expenses takes a little more effort. If you have not been keeping good records, you may have to keep track of the money you spend for one month before you can enter numbers into your budget.

Advance Preparation:
- Gather information about any sources of income you may be receiving. This may include paycheck receipts from a part-time job, regular parental allowance, and monetary gifts for birthdays or holidays.
- Collect all your bills, checkbook register, and receipts for groceries, gas or anything else you buy with cash.
- Divide annual expense figures by 12 to determine monthly amounts, semiannual figures by 6, quarterly by 3, etc.
- Track where your money goes for those categories where you do not receive a bill or have receipts available (i.e. transportation and meals out). These expenses are
usually difficult to estimate. Therefore, the best way to get an accurate number is by making entries in a notebook — every time you spend money. This is most accurate when done for one month but two weeks will provide a good estimate (the two week total must be multiplied by two).

- Make estimates, when necessary, for any remaining expense categories. For example, most people spend money on “gifts” but it may be that in the particular month when you did the tracking exercise, there were no celebrations. However, keep in mind that most guesses tend to be lower than actual expenditures.

- Add your own specific categories if you have expenses that are not contained in a typical budget. For example, you may engage in a specialized hobby, take lessons for a certain sport or play an instrument.

Create a Budget:
The first time you put a budget together, plan on allotting a fair amount of time to make sure that you do the advance work necessary. You may be tempted to skip certain steps, such as tracking your monthly expenditures or doing the math to convert periodic expenditures to monthly ones. However, if you guess and just fill in the blanks with estimates, your budget will not be accurate. Without knowing your genuine financial situation, you will not be able to develop a financial plan that has any connection to reality.

Once you have completed your budget, future changes only need to be made when there is a change in your income or expenses. For example, if you pay off a car loan, you can eliminate that expense from your budget. Or once you get a full-time job after graduation, you can adjust the entry in the “income” line by replacing your parents’ allowance with a salary. Because a budget is a living document, many people choose to fill it out in pencil. This allows for easy changes by just erasing the previous entry. All budgets have these components in common:

- Write down your monthly take-home pay – the amount that you receive from your paycheck after any deductions are taken out. List income you receive from any source, such as a part-time job, gifts, investment income, or allowance from a parent. Add the entries to determine your total take-home or net income for that month.

- List how much you deposit in savings each month from your take-home income, even if it is only a small amount. If you do not currently set aside any savings, you need to get in the habit of paying yourself first. This concept is addressed in Chapter 7.

- List your “fixed” monthly expenses – the predictable, set amounts for the items and services that you pay for each month – like rent, car payment, or Internet access.

- List your “variable” monthly expenses – the amounts that fluctuate, as well as the expenses you pay weekly, monthly, quarterly, semi-annually, or once a year. These

3Net income: An individual’s income after deductions and taxes are subtracted from gross income.
may include groceries, clothing, haircuts, tuition fees, textbooks, and gas and electricity. You will need to enter your average monthly amount for each expense. If you completed the advance preparation work, you should already have these numbers.

- List monthly estimates for “occasional” expenses – such as birthday and wedding gifts, or holiday gifts and sporting matches.
- Total your income and total your expenses. Compare the relationship between the two.
- Evaluate your outcome. If you have money left over after subtracting your expenses from your income and putting money in savings, you can carry over the balance for the next month or use it to pay unexpected expenses. If this month’s cash balance is negative, look for ways to cut back on the variable expenses.

**Step 2: Review Your Progress**

In some cases, your targeted spending plan and your actual spending habits do not coincide. The goal is to spend according to the plan, but in reality many things may interfere with our ability to stay within the budget constraints. Common categories in which you might overspend may include meals out, clothing, entertainment, and mobile phone costs.

Since money management is a continual learning experience, it is necessary to keep records of actual spending each month to compare with the plan. This comparison will allow you to:

- Have an actual tally of how much you spent as opposed to estimates.
- Identify problem areas where overspending occurred.
- Reduce or eliminate some expenses.
- Brainstorm ways to increase income, such as finding a better paying job.

**Step 3: Make Changes**

This step requires adjusting expenses and/or income to reach your long-term financial goals, and is usually the most difficult. Many people, when asked to give things up or reduce spending, tend to resist and come up with all kinds of excuses that start with “Yes, but…”

- Common excuses include:
  - I would give up my mobile phone, but what if there is an emergency?
  - I would give up smoking, but then I will gain weight.
  - I would give up eating out, but I do not have time to cook.
  - I would give up entertainment, but then I will not have a social life.

The reality is that there are only two ways to improve your financial situation — either make more money or spend less (or do both). However, many people feel there is another
solution. This solution is appealing since it does not involve sacrifices. It is not a proactive solution, but one that relies on someone or something else saving the day:

- You are waiting to marry into a wealthy family.
- You are waiting for your own family to help you out.
- You are waiting to get a good paying job.
- You are waiting to inherit money.

The problem with all these “solutions” is that they may or may not ever happen. Even if your family does decide to help you out financially, you will never learn to be truly independent if you continue to request their assistance.

Being financially independent is liberating; you are in control of your own financial destiny and do not have to rely on anyone else. This can also be frightening since you may fail.

However, there have been studies that prove a positive correlation between education in personal finance and resultant behavior. Those with education tend to make wiser decisions regarding their money.

So, the incentive to creating and following a budget is to increase your financial prosperity. The goal should be to end up with more money successes and fewer money messes.
Chapter 2 - Activity 1
Where Does Your Money Go?

As mentioned at the beginning of this chapter, understanding how to create a budget is an important way to organize and understand your financial situation. If you do not yet earn an income, work through this chapter with your parents using income and expense figures that mirror your family’s actual budget.

Creating a budget is a great way to avoid feeling financially overwhelmed or disorganized. Not only will you feel more comfortable with your financial situation, but you will have more flexibility to make financial decisions to help you reach your goals. Even if you have never had a budget before, it is not too late to learn how to budget your money.

Use the following activity to evaluate your own budgeting skills. Start to consider where you spend most of your money and the benefits of these expenses. Your answers will help you formulate a basic spending plan. Your answers will also be helpful in the next activity, where you will examine your own expenses in relation to recommended budgeting guidelines.

1. Enter your estimated monthly income from all sources on the lines indicated below. Even if you do not yet have a formal job, you can still estimate the amount of discretionary money you receive from your parents. If you have additional sources of income, add them on the blank lines. Then, total your income in the space provided.

<table>
<thead>
<tr>
<th>Income</th>
<th>Monthly Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Income</td>
<td>350 dinars</td>
</tr>
<tr>
<td>Family/Parents</td>
<td></td>
</tr>
<tr>
<td>Job</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td></td>
</tr>
</tbody>
</table>

2. Next, estimate the amount of money you spend each month on food, housing, transportation, and other expenses, especially as they relate to the goals you set for yourself in Activity 2 from Chapter 1. Enter the amounts on the lines indicated on the next page. If you have additional expenses, add them on the blank lines. Then, total your monthly expenses in the space provided.

Also identify the relative importance of each expense: is it very important, somewhat important, nice to have/do, or not very important? Classifying your expenses this way will help you determine where you might be able to cut back.
3. Calculate how much money you have left over every month. Simply subtract your expenses from your income to determine this amount. If your expenses are greater than your income, then you need to look for ways to cut back.

```
<table>
<thead>
<tr>
<th>Expenses</th>
<th>Relative Importance</th>
<th>Monthly Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sample Payment</td>
<td>Somewhat important</td>
<td>35 dinars</td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing (rent/upkeep)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation (car/bus/insurance)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entertainment (concerts/movies/sports)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Loan repayment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other debts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total Expenses</td>
<td></td>
</tr>
</tbody>
</table>
```

Take It Another Step
Keep track of your actual income and expenses over a one-month period. Save any paystubs, receipts, and bills, and then compare the total monthly amounts with your answers in Steps 1 and 2, above.

Did any of the differences in estimated vs. actual expenses / income surprise you? What changes in your behavior need to take place as a result?
Chapter 2 - Activity 2

Budgeting Guidelines

Everyone has his or her own preferences about where to spend money. You may wish to spend your money on education or entertainment, or you may just want to save your money so that you can pursue your long-term goals. No matter how you choose to spend your money, issues may arise when you spend more money than you have. Doing so creates debt, which may not be the financial situation in which you wanted to find yourself.

This activity will help you look at your spending and determine how to make adjustments to better align with your financial priorities. Follow the steps below to compare your own spending with the recommended amounts for a university student.

1. Fill in the first column with the amounts you tracked in Activity 1. These should be the actual dinar amounts you spent over one month.

2. Calculate the percentage of your total monthly income that each amount represents. Enter these percentages in the second column.

3. Look at the recommended percentage breakdown for student budgets in the third column. What is your initial reaction to these percentages? What surprised you?

4. Compare your actual spending with the recommended spending percentages. In the last column, write “more” if you spend more than the percentage indicated in the recommended budget, or “less” if you spend less than the recommended amount.

<table>
<thead>
<tr>
<th></th>
<th>Actual Amount</th>
<th>Actual Percentage</th>
<th>Recommended Percentage</th>
<th>More or Less?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
<td></td>
<td></td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td></td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td></td>
<td></td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous</td>
<td></td>
<td></td>
<td>8%</td>
<td></td>
</tr>
<tr>
<td>Clothing</td>
<td></td>
<td></td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Medical</td>
<td></td>
<td></td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Entertainment</td>
<td></td>
<td></td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Utilities</td>
<td></td>
<td></td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Savings</td>
<td></td>
<td></td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>Other debts</td>
<td></td>
<td></td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Visa
Take It Another Step
Consider the biggest differences between your budget and the recommendations provided. What caused these differences? Do you think you need to make some adjustments? Remember how you felt in this section as you go onto the next activity, where you will adjust your budget.
Chapter 2 - Activity 3
Prepare for the Unexpected

Your budget is a flexible document; your income and expenses might vary from month to month and your priorities might change. Sometimes, you might face an unexpected expense and need to make sacrifices in other areas of your spending in order to pay for it. Thus, it is important to know how to work with and adjust your budget.

Consider how you would react to the following scenarios, based on the spending plan you developed in the previous two activities. This activity focuses on adjusting your budget based on different scenarios that could come up and cause unexpected spending. Think about the following fictional situations. How would you react to them? What financial decisions would you make? What might you have to give up in order to pay for these expenses?

Situation 1: You drive to work everyday, 10 kilometers each way, and you have the exact amount of money budgeted for petrol for the month, based on last week's price of 5 dinars per gallon. Unexpectedly, the price of petrol increases by 20%. What will you do to pay the extra cost for petrol?
   Added expense amount per month: __________________
   Your course of action (activities and expenses to cut back): ___________________________________________________________________

Situation 2: As a clerk at a store in your neighborhood, you make 70 dinars per week. Today you found out that the store is going out of business. How will this drop in income affect your overall budget? Will you find another source of income? Will you ask your parents for more money? Or will you cut back in certain areas?
   Decreased income amount per month: __________________
   Your course of action (increase income and/or reduce expenses): ___________________________________________________________________

Situation 3: A friend asks you to go away for a weekend to celebrate his birthday. Although you had not planned on spending any more money this month, you really want to go on the trip. With transportation, hotel, food, and entertainment costs, the trip will likely cost 100 or more dinars. Will you go on the trip? How will you pay for it? What might you give up in order to make the trip?
   Added expense amount this month: __________________
   Your course of action (activities and expenses to cut back): ___________________________________________________________________

Take It Another Step
Reflect on past experiences and anticipate future issues. If you think about different situations that caused a budget adjustment in the past, you may have a better idea of what could happen in the future. What did you do in the past when unexpected expenses came up? Did you have an organized budget then? How will you use what you learned in the past to anticipate future budget changes?
Many readers of this Guide aspire to achieve a tertiary education. A student loan is a tool that may allow a student to afford the costs of tertiary education. A loan connected to the advancement of your education is an investment in your future. With a higher education level, you may qualify for better paying jobs and have more employment choices available to you.

The importance of tertiary education is a tenet that is agreed upon throughout the world. For example, the Government of India is renewing its efforts to strengthen higher and technical education to address the current skill shortages in the economy.

Likewise, in Egypt, according to the Ministry of Education, “Enhancing higher education is considered one of the main prerequisites in an era of knowledge and information as it is responsible for preparing a strong generation able to keep pace with changes and help society catch up with the recent progress and civilization in the era of knowledge.”

Finally, fewer Brazilians are enrolled in higher education compared to other countries in the region and increasing their access to post-secondary education is key to ensuring a better educated workforce and making the country more competitive. A college-educated worker earns about three times more than a person without a college degree, thus making higher education a significant factor in improving people’s lives.

However, access to tertiary education does have some barriers that must be surpassed. These obstacles may include the competing pressure to enter the workforce, the necessity to pass a placement exam, or the inability financially to afford continued education.

The increased number of private institutions and rising tuition costs have prompted more students to look at student loans as one option to help fund their tertiary education. It is becoming increasingly common for students and their parents to consider borrowing money as a necessary higher education financing tool if they lack the resources to pay all or a part of these education costs. To meet this need, more banks and micro-credit organizations have been moving to diversify their product line to include student loans.

In simple terms, a loan is an arrangement in which a lender gives money to a borrower and the borrower agrees to repay the money at some future point in time. In the case of student loans, the money is to be used to help pay the cost of tuition. Chapters 4 – 6 discuss debt more in depth.

For this service, the lender receives a fee from the borrower for the use of the borrowed money, which is gathered primarily through interest payments. An interest rate is often
expressed as an annual percentage of the original amount borrowed. As money is not free, interest represents the cost to the borrower of using the lender’s money.

Determine How Much to Borrow
The following steps will help you determine exactly how much money you will need to borrow for school. Knowing the correct amount will prevent you from borrowing too little or too much. Coming up short creates an obvious problem but borrowing too much will result in additional and unnecessary debt that will eventually have to be repaid.

Step 1: Identify Your Educational Expenses
Work with your tertiary education institution’s admissions or student services office to identify all expected costs. These expenses may include, but are not necessarily limited to the following:

- Tuition
- Fees (e.g., registration, permits, etc.)
- Housing
- Meals
- Transport / Parking
- Textbooks and supplies
- Special equipment (e.g., computer)

Step 2: Evaluate Your Existing Financial Resources
Because the total cost of borrowing can increase significantly as each year of schooling passes, a good strategy is to borrow only what is absolutely necessary. Evaluate non-loan sources first to pay for many of your educational expenses. Then determine how much might be available and over what time period you can rely on the various sources.

Identifying alternative sources of non-loan funding is also important since most student loans only cover the cost of tuition. The other costs associated with an education must be paid for in a different way. These sources of funding may include:

- Gifts from your immediate family or relatives
- Current family income
- Savings
- Investments
• Income during the school year
• Scholarships / awards

**Step 3: Calculate Funding Needed**

Total Educational Expenses – Total Funding Available = Amount to Borrow

Once this amount is determined, you will need to shop around to find a student loan with the best terms. Lenders will list their “terms and conditions” – see Chapter 4 for more information on “terms and conditions.” Compare loans among the various lenders to determine which has the most favorable terms for your particular situation. Common questions to ask may include:

- What is the interest rate (the lower the better)?
- Is the interest rate fixed or adjustable?
- Are payments required while still in school?
- Is the total balance due upon graduation?
- If not, is there a grace period after graduation before payments begin (e.g., six months)?
- How will the principal be repaid (e.g., equal monthly sums)?
- What are the criteria for approving the loan?
- Are there any special fees associated with the loan (e.g., processing charge, late fee)?
- Do you have any repayment options if you get behind on payments?

Since this loan will be a sizable investment in your future, you should take the time to find answers to all of these questions. Only when you understand the full extent of your commitment, should you enter into this long-term obligation.

Also, discuss the possibility of obtaining a student loan with your family. Revisit the budget exercises discussed in Chapter 2 to see how this student loan would fit into your family’s budget.

*Grace Period: The additional period of time a lender provides to make payment on a debt without a penalty.*
Chapter 3 - Activity 1
How Will You Spend your Money?

Chances are that you are reading this because you are about to enter your next life stage — one that includes the next phase of your education. This chapter has focused on student loans as a way to help increase your understanding of your options for financing your post-secondary education.

This activity will build on the foundation that you started with the previous chapter, in which you identified and analyzed your financial decisions and activities. In fact, it is a good idea to get your work from that activity, so you can refer to it easily.

Follow the steps below to help you think about your expected financial decisions and activities as a university student.

1. List the financial activities and decisions you might encounter as a university student. Some may happen daily (e.g., meals, cell phone charges), while some may happen only once per semester (e.g., tuition, textbooks). Even if you are unsure about it, go ahead and list it. Do not worry about organizing your list at this point.

   ___________________________________   ___________________________________
   ___________________________________   ___________________________________
   ___________________________________   ___________________________________
   ___________________________________   ___________________________________

2. Organize your list. Now, look at your list and group the financial activities and decisions, similar to the example below. Create different groupings, such as:

   - Likelihood of the activity or decision occurring — Is it definite, probable, or merely possible?
   - Relative size of the activity/decision — Is it a minor spending decision/activity? Is it a major one?
   - Frequency of the activity/decision — Which ones are you likely to experience daily or weekly? Which ones are monthly or less often?
   - Necessity of spending — Is there some spending that you will have to do? Some that you think you will choose to do?
3. Look for patterns and differences. Do you notice any patterns within the likelihood category? Differences? Are there some activities that are dependent on others?

Take It Another Step
Talk with a current university student. Ask someone you know who is currently enrolled in university (or recently graduated) about some unexpected financial decisions and responsibilities. What were they? How did they handle the situations? What did they learn from the experiences?
In the previous activity, you identified some of the financial activities and decisions you may face in university. Now, you will calculate the total of those activities and determine how much funding you will need in order to pay for university.

1. Add up all of your expected expenses. In the chart below, write down each of the financial activities that you identified in the previous activity. Then, estimate the yearly cost for each. Add all of the estimated costs to come up with a yearly total of educational expenses.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Yearly Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tuition</td>
<td>5,000 dinars</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Educational Expenses</td>
<td></td>
</tr>
</tbody>
</table>

2. Calculate the funding you will need to attend university. Using the example chart below, enter your total educational expenses (from Step 1). Then subtract your existing financial resources to determine the additional money you may need to borrow in order to pay for your education. Remember this formula:

\[
\text{Total Educational Expenses} - \text{Total Funding Available} = \text{Amount to Borrow}
\]
<table>
<thead>
<tr>
<th></th>
<th>Example</th>
<th>Your Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Educational Expenses</td>
<td>5,500 dinars</td>
<td></td>
</tr>
<tr>
<td>– Scholarships and Grants</td>
<td>500 dinars</td>
<td></td>
</tr>
<tr>
<td>– Savings</td>
<td>600 dinars</td>
<td></td>
</tr>
<tr>
<td>– Gifts from Family</td>
<td>1,000 dinars</td>
<td></td>
</tr>
<tr>
<td>Additional Amount Needed</td>
<td>3,400 dinars</td>
<td></td>
</tr>
</tbody>
</table>

Some student financing programs may limit the amount that a student or family may borrow per year. Therefore, it will be important to discuss the financing options available to you with your local financial institutions.
Chapter 3 - Activity 3
Ask the Right Questions

Deciding how to pay for university is not always an easy process. University and the expenses that come along with it can be expensive, but there are options available for those who are focused on the goal of continuing their education. Now that you know what financial activities and decisions you might face in university and the amount of funding you will likely need, you can research your financing options with a clearer picture.

One of the best ways to gain insight about student loans is to begin by asking questions.

Determine what you already know about student loans and areas for which you need additional information by following the steps below. Remember that many of your questions may be answered throughout this Guide.

1. Make a list of all the things you already know about student loans. This list may include potential lenders, information about the application process, interest (or mark-up) rates on student loans, repayment terms, and factors that influence the amount of your loan.
   Community Bank A has low mark-up rates.

2. Write down all the remaining questions you have about student loans. Maybe you are wondering what type of documentation to provide or how the lender works with your chosen university? Knowing which questions to ask a potential lender will prepare you to gain the most relevant information possible.
   How long will it take to pay back my loan?

Keep the above questions in mind as you continue through this curriculum. The goal is to have a better understanding of how student loans work and how they will be able to help you with the costs of higher education.
Credit involves the act of buying goods and services now and paying for them over time. When you obtain credit, you are using borrowed money in lieu of your own. Credit is usually granted through a loan or agreement with a creditor. A good way to understand this concept is that it is similar to paying “rent.” Just as you would pay rent for the privilege of living in someone else’s house, credit allows you to “rent” others’ money to buy goods and services.

Debt on the other hand is created after money is lent. Debt refers to the amount owed from the funds that are borrowed. There is a cause and effect relationship between the two—the granting of credit creates debt.

Typically it is not a good idea to use credit to purchase things that are easily consumed (i.e., food, gasoline for your vehicle, etc.) because soon you will be left with only the payments—long after the food has been eaten or the car runs out of gas.

However, school loans, automobile loans and mortgages are good uses of credit, since they require large initial outlays of cash that many people find hard to amass. In exchange, you receive a valuable asset (i.e., your education, car, or home).

When you borrow money from a bank or other lender, you agree to pay it back. It is not a gift. In return for this arrangement, you pay fees and / or interest (commonly called mark-up), as well as the money you have initially borrowed (the principal).

Credit can be an essential financial management tool. Using credit gives you flexibility to make purchases when you need them the most, not just when you have the cash to pay for them.

This is both advantageous and disadvantageous. On the positive side, you will have immediate gratification and need not wait until you have accumulated the money. On the negative side, this may facilitate overspending; it is always easier to spend other people’s money. Regardless, establishing credit is the first step toward ensuring strong, long-term financial health.
Types of Credit

There are many different types of credit including home mortgages, car loans, small business loans, student loans, and credit cards. To decipher the language of credit, some helpful translations are listed below:

Installment Loan: This is a credit account where you pay back a set amount every month for a period of time. Cars, student loans, and mortgages are all examples of installment loans.

Unsecured vs. Secured: A secured debt is one that is linked to an asset, such as a home or an automobile. An unsecured debt is one that does not have an asset attached, such as a credit card.

In case of nonpayment of the loan, the creditor may take back the asset linked to a secured debt. Examples include foreclosure or automobile repossession. For unsecured debts, since there is no property to be seized, the creditors have to rely upon other methods to recoup the money lent (see Chapter 6).

Credit and Debit Cards: In many countries, the use of debit cards or cash has far surpassed that of credit cards. Credit cards have only recently emerged as an alternative form of payment. For most university students, credit cards are very difficult to obtain since they do not have a guaranteed job yet. Those students who do possess a credit card have usually obtained it because their parents have the financial means to back the extension of credit.

Credit and debit cards look similar but there is a significant difference between the two forms of payment.

- Debit Card: A card that is tied to your bank account. When you make a purchase with this card, the money is automatically withdrawn from your bank account. This is not a form of credit.

- Credit Card: A credit account that allows consumers to make purchases up to a pre-determined amount (i.e., credit limit) and pay back what is borrowed, plus interest or mark-up. These payments may be partial.

You can continue to use a credit card as long as you do not go over your credit limit. While some payment is required each month, you do not have to pay off the entire balance. However, it is important to always pay your credit card bill on time. If you miss a payment, the credit card company may charge you late fees. These fees can compound over time and be a very expensive way to purchase goods.

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5Mortgage: An installment loan you use to pay for eventual ownership of an apartment or house. A lien is placed on the property until you pay off the loan according to its terms and schedule.
6Foreclosure: The legal process by which an owner’s right to a property is terminated, usually due to default. Typically involves a forced sale of the property at a public auction, with the proceeds being applied to the mortgage debt.
7Repossession: The taking back of a borrower’s automobile by the lender, usually due to loan default.
Remember, having a credit card means that the credit card company has agreed to lend you money. You are required to pay that money back, usually with interest added, for the convenience of borrowing those funds. It is not free money. (See Chapter 6)

There is yet another type of card, which resembles a credit card but has a different payment structure:

- Charge Card: A credit account in which you are required to pay the entire balance you spend at the end of each month.

For example, if you spend 1,000 dinars, you are required to pay the entire 1,000 dinars when you receive your bill.

Even though there are only two main types of cards that offer you credit, every card is different in the credit limit, interest rate, and other fees and terms. Always review credit card agreements carefully before applying for and using a card, and look at your statements closely each month to make sure you understand all the charges.

**Terms and Conditions**

When you enter into a credit arrangement, you will have to sign a contract that contains all the terms and conditions of the loan. If you understand the terminology, including the vocabulary listed below, you will fully comprehend the nature of your agreement.

**Finance Charges:** The amount of interest / mark-up and other fees (e.g., transaction fees, late fees, etc.) that you are charged from your creditor each month.

Some of the most common finance charges are:

- **Transaction Fees:** Transaction fees are sometimes assessed when you transfer a balance from one credit card to another or when you use an ATM to withdraw money from a bank that is not your own. Withdrawals from ATMs in foreign countries are usually charged a higher transaction fee than from ATMs in your home country.

- **Annual Fee:** Sometimes a company will charge you a fee just for using its services. This fee will usually appear on your statement once a year. For credit cards, you may be required to pay this fee even if you never use the card for any purchases. Since many cards have no annual fee, it is worthwhile to shop around.

- **Cash Advance Fee:** This is a fee linked to a credit card for withdrawing money directly from the card, instead of using the card to make a purchase of goods or services. The fee charged for this transaction is usually higher than for a straight purchase.

- **Over-the-Limit Fee:** This is a fee charged if you go over your credit limit. Be aware that your purchase may be approved even if you are over the limit. So it is important to always know your outstanding balance and if you are close to the limit before you make a purchase.

- **Late Payment Fee:** This is a fee charged if a payment is received after the due date. Missing even a few payment deadlines could cause your interest rate to increase.

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8 Terms: Your agreement with your creditor that specifies how often you will make payments on an account and for how long.
• APR: The term APR, or annual percentage rate, refers to the total amount of interest / mark-up and fees you are required to pay per year on a credit account. Your APR may change while you have your account if it is a variable rate and not a fixed rate. The higher the interest rate or mark-up, the more money you will have to repay in total on the loan. APR is calculated and expressed in terms of percentages.

For example, if your loan has a 10% APR rate, you will pay 10 dinars per every 100 dinars you borrow annually. To calculate your monthly rate you simply divide your annual percentage rate by 12. For example:

18% divided by 12 equals 1.5%.

If 200 dinars is your account balance then 200 x 1.5% = 3 dinars. This is the monthly cost of credit. That may not sound like a lot, but it can definitely add up! The most important lesson to remember is this – the time you spend shopping around for the best rate is well worth the savings you will gain in the long run.

Qualifying for Credit

Some countries are beginning to adopt “credit reports,” which assist creditors in deciding whether to offer credit to a customer. Local credit reporting companies in addition to government agencies are in the early development stages of these reports. Although the use of credit reports is not yet widespread, creditors can use other methods to determine whether a customer is creditworthy.

Banks normally operate on the premise of “Know Your Customer.” You can start to build a relationship with a bank by opening a small savings or current account. Then as the bank gets to know you, your credibility will slowly become established. The more credibility you have, the more financing options are available to you.

Your payment history (whether detailed on a credit report or developed through a relationship with a bank) will be a powerful determining factor as to whether you receive credit and what interest rate or mark-up you will be charged. Thus, it is important to maintain excellent credit management. This is the subject of the next chapter.

Credit report: A report containing detailed information on a person’s credit history, which includes identifying information, credit accounts and payment history. It can be obtained by prospective lenders with the borrower’s permission, to determine his or her creditworthiness.
Where does credit fit in your overall financial plan? It is becoming more common for people to use credit cards. If you get a credit card, will you pay just the minimum amount required each month or buy only things you know you can pay off in one month? What will you have to give up if you take on a loan payment? Will a bank offer you good credit products with your financial history? These are the types of questions you should ask yourself when considering whether to apply for credit. And they are the same types of questions that a bank will consider before offering you a loan or a credit card.

Answer the following questions about your or your family’s earning, saving, and spending habits. You may not yet have a source of income or have incurred debt before. If this is the case, discuss these questions with your parents.

1. What is the source of the majority of your income?
   a. Parents/Family   c. Full-time job
   b. Part-time job    d. Odd jobs

2. How steady has your income been over the past year?
   a. Very steady   c. Somewhat unsteady
   b. Somewhat steady d. Very unsteady

3. How much of your income do you save on a regular basis?
   a. None    b. 1-4%   d. 10% or more
   b. 5-9%   d. 10% or more

4. Which of the following statements best describes your spending habits in relation to your income?
   a. I earn more money than I spend.
   b. I spend exactly what I earn.
   c. I spend more money than I earn.

5. How comfortable are you with your current level of debt?
   a. Very comfortable   c. Somewhat uncomfortable
   b. Somewhat comfortable d. Very uncomfortable

6. Which of the following big expenses do you plan to take on in the near future?
   a. Car    d. Children
   b. University e. None of the above
   c. House

7. When do you normally pay your existing bills?
   a. Always on time   c. Rarely on time
   b. Sometimes on time d. Never on time
Now, pretend that you are a loan officer for a bank. Do the answers to the previous questions exhibit good credit behaviors? Would you offer this person a loan or a credit card based on the answers?

**Take It Another Step**

Pick two friends or relatives and either have them answer the above questions, or speculate what their answers would be. After going through the questions, make recommendations as to their level of creditworthiness – Do they exhibit good credit behaviors? Would you offer them a loan or credit card based on their answers?

<table>
<thead>
<tr>
<th>Name</th>
<th>Notes about Creditworthiness</th>
</tr>
</thead>
<tbody>
<tr>
<td>#1</td>
<td></td>
</tr>
<tr>
<td>#2</td>
<td></td>
</tr>
</tbody>
</table>
Chapter 4 - Activity 2
Good Credit Creates Good Credit

Banks extend credit to consumers who exhibit good credit behaviors. And the better their behaviors, the better credit products the bank can offer. Take mark-up rates, for example. Consumers with “good credit” often qualify for lower mark-up rates. And that means lower monthly payments and lower overall costs paid to the bank. See the following example for a demonstration of how much money you can “save” by establishing and maintaining good credit:

7,000 Dinar Loan for Three Years at Various Mark-Up Rates

<table>
<thead>
<tr>
<th>Mark-Up Rate</th>
<th>4%</th>
<th>6%</th>
<th>8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Payment (dinars)</td>
<td>209</td>
<td>215</td>
<td>222</td>
</tr>
<tr>
<td>Total Mark-Up Paid Over Three Years (dinars)</td>
<td>445</td>
<td>675</td>
<td>908</td>
</tr>
</tbody>
</table>

In this activity, you will examine the credit behaviors of three different fictional characters. After reading their descriptions, rate their overall credit behaviors on a scale of 1 to 5 (with 5 being excellent). Then, offer solutions for improving credit and/or maintaining good credit.

Sam:
Sam recently took a pay cut at his job. He has been unable to pay more than the minimum amount on his credit cards. Sam has also been late paying his rent and utility bills multiple times over the past year.
Rating (1-5): _________________________
Solutions: ______________________________________________________________________

_______________________________________________________________________________

Catherine:
Catherine is a recent university graduate. She lives with her parents and has been working for the same company for three months. She has a credit card and pays at least the minimum payment every month. Recently, she took a trip overseas to visit her cousin, which increased her credit card balance significantly. This caused her to pay her bill two weeks late after she returned.
Rating (1-5): _________________________
Solutions: ______________________________________________________________________

_______________________________________________________________________________
John:
John is diligent about paying his bills and his rent on time every month. Recently, he decided to buy a home, and is hoping he can get a good mark-up rate on his loan. He does not own a credit card and tries to pay for all of his purchases with cash.
Rating (1-5): _________________________
Solutions:

__________________________________________________________________________
__________________________________________________________________________

Based on this activity, what do you think people with good credit have in common? What about young people who have not established any credit yet? Do you think they should be judged based on their inexperience with credit? Is that fair?

Take It Another Step
Research credit card options at different creditors’ websites. See what options are available to you now, or what your options might be when you start university. What are the terms and conditions? For which cards might you qualify, based on your own credit behaviors?

Fill in the chart below with the information you found.

<table>
<thead>
<tr>
<th>Name of Creditor</th>
<th>Credit Limit</th>
<th>APR/Mark-up Rate</th>
<th>Annual Fees</th>
<th>Late Payment Fees</th>
<th>Transaction Fees</th>
<th>Cash Advance Fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Bank</td>
<td>3545 dinars</td>
<td>16.7%</td>
<td>20 dinars</td>
<td>25 dinars</td>
<td>n/a</td>
<td>25 dinars</td>
</tr>
</tbody>
</table>

Fill in the rest of the chart with the information you find.
Chapter 5: Managing Debt

Your Money, Your Future
Chapter 5: Managing Debt

After you have applied for and received credit, you need to act in a responsible and prudent manner to ensure that this credit is not misused. When you accept a contract with a creditor, you enter into a relationship in which you must meet certain obligations. Credit is not your money, nor is it a gift. It is a responsibility that needs to be taken very seriously.

This chapter will examine certain tactics that will help you use credit wisely. In general, debt management strategies can be used to:

- Avoid the overuse of credit
- Reduce the total amount of debt
- Shorten the repayment time
- Reduce finance charges

Debt Management Strategies

This chapter will discuss various debt management strategies, and you should strive to follow as many as possible. These strategies will be particularly important when you get your first job after university and become solely responsible for your student loan. However, you should discuss these strategies in depth with your family as soon as you begin to consider a student loan. Incurring any type of debt will affect your parents’ budget and the implications should be considered carefully.

Through commitment and adherence to each recommendation, you will become a better money manager. In the course of your exploration, you may find that certain tactics are very easy to follow, whereas others are more difficult. Concentrate on those strategies that you are not already implementing. Practice following the advice given, even if it is difficult, and you will soon notice your unhealthy money habits being replaced by more beneficial ones.

Student Loan Debt:
Depending upon the terms and conditions of the student loan, the repayment may start while in school or shortly after graduation. Either way you must categorize this monthly amount as a need and not as a want in your budget. It should always be paid before any discretionary spending takes place. If you have a shortage and find it difficult to make this payment, it may require reducing or eliminating other expenses.

For those student loans with a grace period, you will have a reprieve before payments come due. However, do not forget to add this upcoming expense to your post-graduation budget. Making financial plans that do not include this regular payment will result in budgets that underestimate your total expenses. Believing your expenses to be less than they actually are, can result in financial decisions that do not reflect the reality of your financial means.
For example, you may select an apartment that is more expensive than you can afford. This mistake could have been avoided if you had taken your student loan payments into consideration.

If you received student loans from various sources, you may want to stagger the due dates so that all the payments are not due at the same time each month. Spreading out the due dates may assist in managing your cash flow. Certain student loans may also allow you to consolidate them. This would result in one payment per month instead of several and it may also lower the interest rate.

Decide Between Cash and Credit:
Buying on credit nearly always costs more than buying the same item with cash. It is a good idea to get into the habit of asking yourself these questions every time you consider purchasing something on credit:
1. Is this something I need?
2. If so, do I need it now or can I wait?
3. Can I qualify for credit?
4. What is the interest rate or mark-up?
5. Are there additional fees?
6. How long is the tenor and the grace period?
7. How much is the monthly payment?
8. When is the monthly payment due?
9. Can I afford to pay the monthly payments?
10. How long will it take me to repay the amount borrowed?
11. What will happen if I do not make the payments on time?
12. What is the extra cost of using credit (OR) how much will it ultimately cost me?
13. What will I have to give up if I buy it? What is the opportunity cost?

Your answers to these preceding questions will guide your answer to this final question: “All things considered, is using credit worth it?”

Pay Cash for Living Expenses:
Do not depend heavily on credit to pay for day-to-day living expenses. If you find yourself using credit to pay for groceries, gasoline, meals out, personal hygiene items or clothes, try to pay with cash instead. Some people find they are using credit for these items because they do not have the available cash. This is often a warning sign of being overextended.
Use Credit for Items of Lasting Value:
Credit is best used for items whose value will outlast the installment payments. If you purchase furniture on credit, for example, will you still be paying for that couch long after it has fallen apart? What about that meal you ate long before you received the credit card bill? Psychologically it is more difficult to pay for something that you no longer have in your possession.

Understand Statements:
Check every billing statement for correct information, including purchases, any credit reversals, and payments. Act quickly to correct errors, such as double payments, under-reported payments, or inflated purchase amounts. If there is an honest accounting error, the creditor should easily be able to revise your account. Keeping receipts will assist in presenting your case.

Think Ahead:
Be proactive, not reactive, about your finances. Make a plan that includes your different financial obligations after graduation. You want to endeavor to be in control of your money and not have your money control you. By being in control, you can make the decisions that you want to make and not have decisions thrust upon you. For example, if you have money in a savings account, you may be able to take more time finding a job that you really want and not be forced to take the first job that is offered to you – just because you need the money.

Live Within Your Means:
Do not open new credit accounts unless they fit with your overall budget plan. Remember that numbers do not lie, so if your expenses are as much as – or more than – your disposable income, taking on another loan will definitely not help you solve your cash flow problems (See Chapter 2).

Resist Impulse Buying:
Major purchases should never be made without first doing comparison shopping and then making sure that your budget will allow for the purchase. Impulse buying occurs when your emotions are allowed to supplant your logic. Many people regret having made purchases on impulse. And, unless there is a return clause, you cannot take back the item. So make sure you really want it and can afford it before you make the purchase.

Establish a Safe Debt Level:
Your debt-to-income ratio gives a clear picture of your financial well-being. If you do not know how much debt you can handle, it is easy to get in over your head.

To figure out your debt-to-income ratio, divide your total monthly debt payments (including any automobile, student loan, and credit card payments if you have them) by your monthly gross income. If the resulting percentage is 39% or
greater, you are in the danger zone and need to work on reducing your debt level. You are in great shape if your debt percentage is 15% or lower. (See Chapter 5, Activity 2)

**Make Payments on Time:**
Consequences of missing the due date may include higher interest rates as a penalty and late fees until your account is brought up-to-date. Notify creditors when you move so that your bills arrive on time and your payments are never late. If your loan's due date is approaching and you have not received a statement, call the customer service number located on your credit card or previous billing statement. Not receiving the bill is not a valid excuse for not paying.

**Credit Card Debt:**
Credit card usage has been increasing among adults and is projected to increase even more in the future. Therefore, in anticipation that credit cards will become a part of your financial portfolio as you enter the job market, you need to learn the basics of credit card management prior to your actual receipt of them. Preventative education is the best way to avoid credit mistakes in the future:

- Try to restrict your total number of credit cards to only one.
- Pay the entire balance when it is due; resist making only a partial payment.
- Review your spending habits by analyzing your bill. Identify unnecessary purchases and make an effort to cut them out in the future.
- Set a monthly limit for your total charges and stick to it.
- Do not charge your credit cards to the maximum limit and keep them at that level.
- Pay your bill as soon as you get it. Depending on how the interest rates are calculated, each extra day could result in additional interest charges.
- Never lend credit cards to friends or leave cards or receipts lying around where people can find them.
- Keep a list of your credit card account numbers and creditors' phone numbers in a safe place in case a card is lost or stolen. If this happens, report it as soon as you notice it is missing.
- Do not pay just the minimum amount due. Paying more than the minimum will save you much more money over time. The next chapter has an example illustrating this.
**Debt Consolidation Loans:**
Consolidating your loans may encourage borrowing more than is absolutely necessary. If you elect a consolidation loan for an amount that exceeds what you owe on the accounts to be consolidated, you will end up with more debt than before. However, a debt consolidation approach can be smart if you move your debt to a lower interest loan and do not incur additional debt. Consider this example:

Family A and Family B both owe 14,000 dinars in total debt on multiple accounts at an interest/mark-up rate of 18 percent. They would like to become debt free. By getting a debt consolidation loan at a 10 percent interest rate, they could lower their monthly payment significantly.

Family A borrows only the amount needed to pay off their existing debt and then closes all their accounts. Family B gets a loan for 6,000 dinars more than they need and then they continue to use their lines of credit, eventually bringing them back up to their initial level of 14,000 dinars. Notice the difference in ending debt levels:

<table>
<thead>
<tr>
<th></th>
<th>Family A</th>
<th>Family B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt consolidation loan</td>
<td>14,000 (10%)</td>
<td>20,000 (10%)</td>
</tr>
<tr>
<td>New debt</td>
<td>0</td>
<td>14,000 (18%)</td>
</tr>
<tr>
<td>Ending debt</td>
<td>14,000 (10%)</td>
<td>34,000 (14%*)</td>
</tr>
</tbody>
</table>

* 14% computed based on the average interest rate of both loans combined

Debt consolidation loans can be a good idea if, like Family A, you only borrow the amount equal to the existing debt and then close the existing credit accounts in order to avoid the temptation to continue using credit. By making the wrong choices, Family B has made their debt situation worse than when they started.
Chapter 5 - Activity 1
The Pros and Cons of Going into Debt

Do people go shopping with the intent of going into debt? Do they spend more money than they have because they want to be in debt? Probably not! There are many different reasons why people go into debt -- some are avoidable and some are not. Some are actually beneficial and some are not.

Before going into debt, you should consider a few general questions. Could you pay for the expense with cash? How long will you be in debt? How will you pay back your debt? And what are the opportunity costs of going into debt?

Below are several hypothetical situations where individuals are considering going into debt. Review the situations, and then categorize them according to the likely levels of debt, timeframes for the debt, and whether the debt is avoidable or unavoidable. Finally, decide what you think each person should do in the given situation. There may not be a “right” or “wrong” answer; it is important to examine the benefits and opportunity costs for both sides of the issue.

Scenario 1: Eric took out a student loan to pay for university. Although he originally wanted a career in finance, he has been thinking recently about attending business school after graduation to give him broader career options. He would have to take on additional debt to do so. Alternatively, he could go to work for his uncle at an investment firm after graduation. What are the benefits of going to business school? What are the benefits of entering the workforce after graduation? What are the opportunity costs in each situation?

<table>
<thead>
<tr>
<th>Likely Level of Debt</th>
<th>Timeframe</th>
<th>Avoidable or Unavoidable?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What would you do if you were in Eric’s situation?
Scenario 2: Dina really wants a new mobile phone. She does not have the cash for it now. She is considering putting it on her credit card, which she plans to pay off in full once she gets a new job, but she is not sure exactly when that will be. What is the benefit of buying the mobile phone on credit? What is the benefit of waiting to buy the mobile phone with cash? What are the opportunity costs?

<table>
<thead>
<tr>
<th>Likely Level of Debt</th>
<th>Timeframe</th>
<th>Avoidable or Unavoidable?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What would you do if you were in Dina’s situation?

Scenario 3: Natasha graduated from university one year ago and has been working at a job in her chosen field since then. Although she has student loan debt, she has been able to put some money into savings every month. She is considering buying her own house and using some of her savings for the down payment. What are the benefits of taking out a mortgage to buy a house? What are the benefits of waiting? What are the opportunity costs?

<table>
<thead>
<tr>
<th>Likely Level of Debt</th>
<th>Timeframe</th>
<th>Avoidable or Unavoidable?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

What would you do if you were in Natasha’s situation?

Take It Another Step
Talk with family members about their experiences with debt. Did they weigh the benefits and opportunity costs before going into debt? How did they manage their debt? Knowing what they know now, would they have done anything differently? Learning about family members’ experiences can help prepare for your own decisions about going into debt.
Chapter 5 - Activity 2
Managing your Debt Level

Have you already encountered situations where it was necessary to go into debt? As you get older, it becomes more likely that you will go into debt to reach a long-term goal or even to pay for an unexpected expense. Whatever the reason, it is important to remember that managing your debt and paying it back in a timely manner are responsibilities that come with taking on the debt in the first place.

The amount of debt you carry in relation to your income – that is, your debt-to-income ratio – also becomes an important consideration in your overall money management. (Earlier in the chapter, you learned to divide your total monthly debt payments by your monthly gross income to come up with this ratio.) Review the chart below, which examines different debt-to-income ratios and how they can affect one’s personal financial situation.

It is important to note that different cultures around the world will have different tolerances for levels of personal debt. The chart below reflects a US norm, which may well not be appropriate for all national contexts.

- **51% or More**
  - **DANGER!**
  - Your debt-to-income ratio is at an extremely high level. At this level, you may not be able to meet all of your monthly obligations and still make the minimum required payment on your consumer credit accounts.

- **39% to 50%**
  - **HIGH!**
  - Your debt-to-income ratio is at a high level. You probably need to reduce your debt level in order to accomplish your goals and objectives.

- **24% to 38%**
  - **FAIR!**
  - Although your debt-to-income ratio is at an acceptable level, you are still using a sizable amount of your income to service your debt payments.

- **16% to 23%**
  - **GOOD!**
  - Your debt-to-income ratio is at a safe level. You should be focusing on eliminating any high interest consumer debts that you may have.

- **16% or Less**
  - **GREAT!**
  - You have a very low debt-to-income ratio if you have a home mortgage. You are in fair shape if all your debt is consumer debt.

Source: Citi

Now, you will look at the debt levels of the individuals from the previous activity to determine where they fall on this spectrum – both currently and in the future if they take on the additional debt. Referencing the chart above, fill in the debt categories for their current and potential future debt percentages. Does this change the decision you made about the individual in the last activity? If you would change your decision, describe what you would do differently and why.
Eric
Current Debt Percentage: 29%  Category: Fair
Potential Future Debt Percentage: 35%  Category: _____________
What you would do differently and why? ________________________________________
__________________________________________________________________________
__________________________________________________________________________

Dina
Current Debt Percentage: 15%  Category: _____________
Potential Future Debt Percentage: 18%  Category: _____________
What you would do differently and why? ________________________________________
__________________________________________________________________________
__________________________________________________________________________

Natasha
Current Debt Percentage: 12%  Category: _____________
Potential Future Debt Percentage: 25%  Category: _____________
What you would do differently and why? ________________________________________
__________________________________________________________________________
__________________________________________________________________________

Take It Another Step
Calculate your own level of debt. As a student, you may not yet have debt obligations. If that is the case, fill out this exercise with your parents, using the debt obligations of your parents. If you family has not yet incurred debt, think of potential types of debt that you may one day incur. Start by filling in each of your regular debt obligations (i.e., loans, credit card bills, and other debts) in the chart on the next page.
### Table: Debts and Average Monthly Payments (dinars)

<table>
<thead>
<tr>
<th>Debts</th>
<th>Average Monthly Payments (dinars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Bank Student Loan</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. Total your monthly debt payments. _________________ dinars

2. Enter your monthly gross income (income before taxes and other deductions). _________________ dinars

3. Divide the total on line 1 by the total on line 2, and then multiply by 100 to calculate your own debt percentage. _________________ %

Into which category do you fall on the above chart? If you fall in the Danger, High, or Fair categories, what could you do to lower your debt percentage?
Chapter 6: Repaying Debt
This financial literacy Guide has already covered the first two stages in the credit continuum. The last stage is repaying your debt.

**Establishing → Maintaining → Repaying**

When you enter into any loan agreement, it comes with a responsibility to pay it back. Similarly, by signing an agreement for education funding, you will be required to make regular payments during your period of study with the balance due after graduation. Your repayment amount should be a fixed item in your budget. You need to allocate enough money each month to make sure that this payment is made consistently and on-time. It is important to remember that this loan was at least partially responsible for your attainment of a higher education.

Some lenders allow a grace period after graduation before you must start making regular payments. A common grace period is six months – meaning that after the sixth month following your graduation, you will have to start making monthly payments. Your “after graduation” spending plan should not neglect to include this expense. Even though this payment will not start immediately upon graduation, it will soon come active so you need to budget for it. You will need to have a clear plan for repayment based on the schedule of debt for your loan as there may be cycles where the debt repayment sum is higher and then tapers off. Be certain to speak to your bank to understand the specific aspects of how your repayment will work during and after graduation.

Most people do not encounter any problems in handling this monthly expense and you should not anticipate any problems either. However if, at any time, you experience difficulty in repaying the loan, it is important to contact the lender to work out an alternate arrangement. Some of the outcomes of defaulting on your student loans may include:

- No additional financial aid
- The entire loan may become due in full.
- Collection costs may be added.
- Tax lien
- Paycheck garnishments

The actual consequences depend on the discretion of your local bank / creditor. Since different institutions have varying procedures for dealing with default, it is important to find out the process for your institution of choice.

**Footnotes:**

10 Defaulting: Failing to make a payment on a loan as agreed in the loan's terms.
11 Tax lien: A claim on property by the government to secure payment of taxes owed.
12 Garnishment: When an amount is withheld from your paycheck.
Repayment Difficulties

Many young adults behave like ostriches when they encounter financial problems, by hiding their heads in the sand. If they ignore the problem, they think it does not exist. Sometimes the problem seems so overwhelming or insurmountable that denial becomes the most attractive solution. We tend to believe that if we ignore unpleasant news, then our problems will just go away. But avoidance of debt problems only works in the short run; you eventually must confront the issue.

Step 1: Admitting the Problem to Yourself

The first step to finding a solution to any debt problem is to overcome any self-imposed barriers you have erected that would prevent you from getting or receiving help. These psychological barriers sometimes cause people to believe their financial situation is hopeless because they:

- Are not good with numbers
- Were never taught about money
- Are paid on commission, with no steady salary
- Are unemployed
- Are too old / too young

All of these situations present challenges, but no financial situation is ever hopeless. Sitting back and doing nothing because you do not believe a solution exists will only guarantee that your situation will never improve. However, being willing to admit to yourself that there is a problem... is the first step toward finding a solution.

Step 2: Admitting the Problem to Others

Your lenders will be more cooperative if you contact them before they contact you. Imagine a hypothetical situation where you lent money to a cousin. If your cousin runs into a situation where he is unable to pay you back, you would probably prefer that he be honest and explain his repayment problems.

However, people are often embarrassed when they are unable to pay back a loan so they instead hide from their friends or family. When this happens, the person who has lent the money feels angry and upset that his family member is not being responsive. If the debt remains unpaid, the situation can cause irreparable damage to the relationship.

The same philosophy holds true for a bank-client relationship. It should be honored in the same fashion as any personal loan. By contacting the bank, you will learn of alternative arrangements that may enable you to continue making payments. These repayment options may vary from bank to bank and are subject to availability.
Student Loan Repayment Options

In the case of student loans, the following are some of the options that may be available to you. Depending on your individual situation and the options offered by your local bank, you may elect to choose one repayment option over the other. The first two options will link your payment to your income. This may make the payment easier to manage since the amount will be calculated with your income in mind:

Income Sensitive:

1. Graduated Repayment Schedule
   This repayment schedule assumes that borrowers should make more money as they progress in their careers. Payments are initially lower and then increase later in the repayment schedule.

2. Income Sensitive Repayment
   The monthly payment amount will be established based on your gross monthly income.

Hardship Related:

When circumstances cause repayment to become difficult, sometimes a change in the terms of the loan can solve the repayment challenge. For example, in the case of a change in due date, if you fall behind because your student loan is due the same week as the rent or mortgage, car payment or other significant bills, contact your lender to see whether you can change the due date and thus stagger your bill payments.

It is important to contact your lender and be proactive. Ignoring the situation will not make it go away; it usually only succeeds in making the situation worse. Never make the assumption that there is nothing your lender can do to help. This is usually not the case.
Repay Credit Card Debt

The previous chapter discussed ways to manage your credit obligations and avoid unnecessary debt. However, despite knowing the rules of how to use credit wisely, some people still find themselves overextended. If one day you find yourself overwhelmed with credit card bills, follow these steps to get out of debt:

1. Cease using your credit cards. Put them away in a safe place where you will not be tempted to use them.

2. Do not apply for additional credit cards.

3. Pay more than the minimum payment (even a small amount over the minimum reduces both the amount of interest paid on your debt and the time it will take to pay it off). For example:

   If you owe US$2,500 dollars on combined credit card debt with an 18 percent APR, and only pay the minimum ($75 or 3% of the balance) every month until the entire amount is paid off, it will take almost 15 years. You will have paid US$2,300 in interest alone—almost the same amount as your original balance! However, if you add the following amounts every month to the minimum payments, look at the results:

<table>
<thead>
<tr>
<th>ADD TO MINIMUM</th>
<th>PAYOFF TIME (MO/YRS)</th>
<th>TOTAL INTEREST PAID</th>
<th>INTEREST SAVINGS</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>180 /15</td>
<td>2,300</td>
<td>0</td>
</tr>
<tr>
<td>10</td>
<td>40 /3.3</td>
<td>822</td>
<td>1,478</td>
</tr>
<tr>
<td>25</td>
<td>32 /2.6</td>
<td>657</td>
<td>1,643</td>
</tr>
<tr>
<td>50</td>
<td>24 /2</td>
<td>495</td>
<td>1,805</td>
</tr>
</tbody>
</table>

4. Send in payments as soon as you receive the bill. (For every extra day you carry a balance, your interest charges may accumulate.)

5. When one card is paid off, make the same payments on another; resist seeing the extra money as spending money.

6. Refuse the credit card issuer’s offer to skip a monthly payment (zero owed that month).

7. Consolidate cards. Make sure to cut up the cards with balances that are now zero or you may be tempted to use them again.

8. Refinance high-rate credit cards. Shop around for the best interest rate.

9. Consider using savings to pay off high-rate credit card balances, but only if you already have a three-to six-month emergency savings fund.
Credit handled wisely is a wonderful thing. The benefits of having access to credit cards are numerous. Conversely, not understanding credit cards and making unwise decisions can affect you negatively for years to come.

Repaying Other Debts

Other common loans include mortgages, automobile loans, small business, and personal loans. All these loans come with an obligation to pay them back. Depending on the discretion of the bank / lender, there are different consequences for nonpayment of these loans.

Most commonly, if your bills are past-due\textsuperscript{13}, the bank may immediately foreclose on the collateral or call upon your guarantors. In the first case, collateral refers to the item that the loan is secured to. For example, in the case of an automobile loan, the vehicle is the secured property. This means that non-payment of this type of loan will initiate efforts to retrieve the vehicle by the creditor.

In the second case, your guarantor is the person who has agreed to back your loan. Once the original recipient of the loan is in default, the bank will contact the next in line (guarantor) to attempt to get the loan current. Since the guarantors are equally accountable for repayment of the loan, committing to be a guarantor is a responsibility that should be taken seriously.

If you continue to avoid your creditor’s attempts to reach you, you can expect to hear from a debt collector / collection agency. This is someone, other than the creditor, who regularly collects debts owed to someone else. Lawyers who collect debts on a regular basis are considered debt collectors, too. Normally these external agencies are more difficult to work with than the original creditor. This is precisely why you should not ignore the situation and allow your account to end up with a debt collector.

The best rule of thumb is to avoid taking on more debt than you can handle. However, if you find yourself needing loans to fund your lifestyle, you may be living above your means. Go back to your budget (see Chapter 2) and find areas where you can either reduce or eliminate some expenses. Keeping your debt to a manageable level is the key to avoiding repayment problems.

\textsuperscript{13}Past-due: An account in which the borrower has failed to make an on-time payment.
In summary, when you have the urge to ignore the situation, remember the lessons learned in this chapter:

- Honor your obligations.
- Open your mail and answer your phone.
- Contact creditors before they contact you.
- Do your research before you agree to a repayment plan.
- Make all agreements in writing.
- Try to avoid the minimum payment trap.

The best rule of thumb is to avoid taking on more debt than you can handle.
Chapter 6 - Activity 1
Research your Repayment Options

As you learned in this chapter, there are some serious responsibilities associated with taking on debt – namely, repaying the debt on time! Once again, here are some financial scenarios for you to consider. You will research possible financing options for the people in the scenarios, including their likely terms for repayment. Then, based on what you have learned in this Guide, make a recommendation for each individual. And of course, what would you do in their situations?

Scenario 1: Sandra wants to buy a car that will cost her 12,000 dinars. She has saved 3,500 dinars to use as a down payment. She wants the car now, even if it means she has to go into debt to buy it.

Recommendation: _________________________________________________________
________________________________________________________________________

<table>
<thead>
<tr>
<th></th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Creditor</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financing Product</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mark-Up Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment Terms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of Time to Repay</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Recommendation: _________________________________________________________
________________________________________________________________________
Scenario 2: Ahmed wants to find a way to pay for university. His tuition is 12,000 dinars per year. Together, he and his parents can contribute 6,000 dinars per year. He wants to further his education, but has never been in debt before.

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Creditor</td>
<td></td>
</tr>
<tr>
<td>Financing Product</td>
<td></td>
</tr>
<tr>
<td>Mark-Up Rate</td>
<td></td>
</tr>
<tr>
<td>Repayment Terms</td>
<td></td>
</tr>
<tr>
<td>Length of Time to Repay</td>
<td></td>
</tr>
</tbody>
</table>

Recommendation: _________________________________________________________
________________________________________________________________________

________________________________________________________________________
Chapter 6 - Activity 2
Create Your Own Financial Plans

How can you use everything you have learned to create your own financial plan? You have set goals and gained knowledge of available financial options. You understand the importance of a budget, how to establish credit, and what to do with regard to debt. This guide has created a reference point — a foundation from which you can plan your financial future.

So, start putting what you have learned to good use! In the activity below, you will create two different scenarios for financing your university education and repaying the debt after you graduate.

Consider the following questions in coming up with your plans:
1. Where will the majority of your university funding come from?
2. Does the needed additional funding that you calculated in Chapter 3 (Activity 2) still seem accurate?
3. How might your financial situation change after each year of university?
4. How will you pay back your university financing?
5. What type of repayment plan will you choose? How long will it take you to repay your loans?
6. What are the opportunity costs in each scenario?
7. Look back at the list of goals you developed in Chapter 1 (Activity 2). How might your plan affect your achievement of these goals? Do you need to reprioritize any of your goals?

<table>
<thead>
<tr>
<th></th>
<th>Option 1</th>
<th>Option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>University funding source(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional financing needed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What are the variables from year to year?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How will you pay back your financing?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayment plan and terms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Opportunity costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How will this plan affect your goals?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>What is your level of confidence that this option is available to you?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are there steps you can take in the future to make this option more likely?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Compare the different scenarios. Weigh the benefits and drawbacks of both. Then, discuss the different scenarios with your family. What are their opinions of the different scenarios?

**Take It Another Step**
Implement your plan. Talk with your advisors at school, your parents/family, and other students. Then, get in touch with universities and begin applying. Decide what is best for you and your family financially and how this affects your financial goals. Stick with the plan and re-evaluate when necessary!
Chapter 7:
Saving and its Benefits
You will hopefully reach a point in your life when you earn enough money to meet your basic life expenses and still have some left to either save or invest. As a student, this time may seem far off. However, thinking about how you want to save money in the future will help you meet your longer term goals.

When given the choice between saving and spending money, those who seek immediate gratification choose spending as the more desirable of the two options. Your purchase is something tangible; you can enjoy it without delay. On the other hand, the benefits of saving are not realized until a later date – one must delay gratification. For many people, especially young adults, the concept of waiting until a later date is not as attractive as the present moment. Why delay when you can have it now?

Unfortunately the mentality of “immediacy” does not lend itself to good saving or investing behavior. Therefore, the first step to starting a good saving habit is to understand why it is worth the wait.

Each person is certain to experience unexpected “life events.” These result in the unexpected expenses that are usually not accounted for in your budget. Life events run the spectrum from everyday annoyances to major emergencies.

Sample life events:
- Home repairs
- Traffic tickets
- Auto accidents
- Health issues or illness
- Birth of a child
- Technology repairs (e.g., computer / mobile phone)
- War
- Recession
- Death in the family
- Displaced
- Theft
- What were some of your recent life events?
When these life events occur – and they will – you need to make sure you are prepared to pay for them. Otherwise, you may be forced to get an emergency loan or possibly be unable to make the required payment and end up suffering the consequences.

**Emergency Cash Reserve**

Having a cash reserve is an important ingredient in post graduate financial planning. Realistically, while in university, most students have a limited income and any available funds are usually committed to normal living expenses or student loan repayment requirements. However, upon graduation and the attainment of a steady and substantial stream of income, an emergency cash reserve should be a goal.

Setting aside money to cover unexpected expenses provides a financial safety net that lets you deal with “life events” as they arise. For example, if you were to lose a job, an emergency fund can pay your bills in the interim. Most experts recommend an emergency fund equal to three to six months of living expenses. This amount should be easy to calculate after having completed your budget in Chapter 2. You simply take the amount you calculated for your total monthly expenses and then multiply it by 3 and then by 6. The three-month amount should be the minimum that you strive to maintain in this savings account.

The amount of your emergency fund also depends upon your age, health, job prospects, and personal financial situation. An emergency fund covering three months of expenses might be adequate if you are not the sole income earner in the household. In this case, if your household has multiple sources of income or dual wage earners, you can count on those other sources of income in an emergency. The three-month reserve may also be adequate if you have lost a job but have a skill that is in demand and are confident that you can find another job without much difficulty.

However, there are many situations when you may need a cash reserve that is closer to the six-month amount. Maybe you are in business for yourself, your work is seasonal, your job is uncertain, or you rely heavily on sales’ commissions. Additional reasons for erring on the conservative side are: if your health is questionable and you foresee medical expenses; or if you anticipate a large expenditure for the care of a relative in the near future.

Your emergency savings should be kept at a financial institution instead of at your home. The main reason is for security of your money. If there is a fire at your house, you can lose your money in the fire, or it may be lost due to theft.

**Saving versus Investing**

Even though the words ‘saving’ and ‘investing’ are often used interchangeably, there are major differences between the two.
Saving provides funds for emergencies and for making specific purchases in the short-term (usually three years or less). The safety of the deposit and liquidity of the funds (i.e., ease of converting to cash) are important aspects of saving. Because of these low-risk characteristics, savings accounts generally do not yield a high rate of return on the initial deposit.

The most common ways to save money include depositing money into a bank savings or checking account. These funds can normally be withdrawn at any time without penalty. However, if you are willing to restrict access to your money for a period of time, there are savings options that pay a higher rate of return. For example, money market funds or certificates of deposit are options that pay more than a traditional savings or checking account.

**Certificate of deposit (CDs):** low risk, low return investments, also known as “time deposits.” The customer agrees to keep the money in the account for a specified amount of time, anywhere from three months to six years.

**Money Market account:** a savings account that bears interest, and on which checks can be written.

With these two options, in exchange for the higher rate of return, your money is not as liquid. These savings products may require you to leave your money in an account for a period of time. Usually the longer the time period required, the higher the interest rate offered.

Investing, on the other hand, focuses on increasing wealth and achieving financial goals in the long-term (usually three years or more). There are different types of investing, such as purchasing real estate or stocks. Stocks are listed and traded on stock exchanges around the world. Since investing involves different degrees of risk (depending on your type of investment), it should not be considered until you have adequate savings set aside.

Given that investing is a much more complex activity than saving, it is always wise to consult a skilled banker or financial professional. The characteristics of investing – in addition to their complexity – include an element of risk, which can be somewhat mitigated if a professional recommends diversification. Without a professional to ensure a diversified portfolio, many individuals tend to invest too heavily in one particular company or type of investment.

Smart investing also requires the need to resist emotional decisions when there are changes in the stock market. Oftentimes, when people are faced with the prospect of losing money, they react emotionally and not logically. Having a professional who is in charge of your investments can help you to make rational decisions when, for example, your investments in the stock market lose value. Although it is always wiser to buy low and sell high, many people unfortunately do just the opposite when the value of their investments declines.

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14Stock: If you own a share of a company’s stock, you are a part owner of the company.
15Diversification: is a risk management technique that mixes a wide variety of investments within a portfolio.
A good financial advisor will ask you many questions, such as your present age, your desired age at retirement, how much money you would like to accumulate before retirement, and your risk tolerance level. These questions will help the professional formulate the best investment portfolio for you. Since everyone’s individual needs are different, no one’s investment mix should be the same.

**Tips to Encourage Saving Behavior**

Most people agree that saving is a good thing; they just say that it is impossible because of their financial situation. In reality, money that comes in has three places it can go – savings, living expenses, or debt payments. The choice is up to you.

There is no way to predict whether someone will have a stronger tendency toward saving money or toward spending it. Some researchers believe that these tendencies are ones we are born with. You may know people that save easily; you may even be a natural saver yourself. However, many people do not find it easy to save, even if they agree that saving is a good thing. They might say that it is impossible and come up with countless excuses as to why “now” is not the best time to save.

I cannot save because...

- I am a student and not earning any money yet.
- I am working at my first job but not earning enough.
- I just became a parent and have childcare expenses.
- I have too many household bills.
- I am taking care of my elderly parents.
- What are your excuses?

Get into the habit of paying yourself first. This is the most effective way to save money. In fact, money never received cannot be missed. When you get a job, ask if your employer can automatically deposit a percentage of your paycheck into a savings or retirement account, the money never actually comes into your possession for you to spend. Another option that works on the same principle is to give your paycheck / earnings to another person – someone whom you trust – who will then deposit a certain amount into your savings account.

Other tips to make saving easier include:

- **Never make a significant purchase on the first trip.** This is when you are emotional and your logical reasoning may not be present. Go home and think about it before you decide whether to buy. If you still want it a week or a month later, then it is probably not a frivolous purchase.
• **Bring along someone who is conservative with their money when you go shopping.** This ensures that any purchase you attempt to make will be difficult since the other person will oppose it.

• **Identify areas in your budget where you could begin to cut back.** You may be surprised at how much you spend on your mobile phone or on eating out. Make a reasoned decision about where you can spend less and put that sum away in savings.

• **Put someone else in charge of your finances.** If money slips like water out of your hands, let someone else take control of it. You may currently receive or have received money in this fashion from your parents in the form of an allowance.

• **Consider yourself a creditor.** When you pay your bills, write a check to yourself. Decide on a monthly amount that you can afford (experts say we should try and save between 5-10% of our net income) and deposit that money into your savings account. Then, pay your other bills as usual. If you find that you do not have enough money to cover all your expenses, write down the amount you are short and look for ways to trim your budget.

Once you establish a regular savings plan, consider increasing your monthly deposit as time and experience result in your getting pay raises and better paying jobs. Many people in this situation choose to increase their standard of living instead of saving the extra money. It is important to resist this tendency; if you use the additional income to get a better car or a nicer apartment, you are just increasing your expenses to match your increase in salary.

Another way to increase your monthly savings amount is after you pay off a debt. Once you pay off your car loan, student loan, or other installment debt, you can deposit that exact amount into a savings account. You will not miss the money since you were not used to receiving it anyway – it went to your creditor.

**Start Saving – The Sooner the Better**

As a university student on a tight budget, saving money may be tough. However, the advantage is that you can be aware of the benefits of saving so that you can begin as soon as you earn an income. Your savings normally accumulate interest, so the more you can set aside, the more your account can earn, so your money grows faster. The interest rate is usually expressed as a percentage, which allows your money to grow through multiplication of the expressed interest rate.

There are two common ways that interest is calculated:

Simple interest. This is based only on the original amount. If your account has 500 dinars in it and earns 5% simple interest per year, it earns 25 dinars in interest. Multiply the amount by the interest rate to get the return.
Compound interest. Whenever interest in calculated, it is based not only on the original amount in the account but also on any interest that has been added. The more frequently interest is compounded, the faster the balance grows. The rate that interest is compounded is referred to as the Annual Percentage Rate (APR). Banks usually disclose this amount to you when you open an account. This deceptively small, cumulative growth makes compound interest extremely powerful. Albert Einstein once called it one of the most powerful forces in the universe.

Rule of 72. This will give you an approximation of how long it will take to double your money at a specified interest rate. The Rule of 72 cites, “Any interest rate divided into the number 72 will give you the number of years necessary to double your initial investment.” For example:

**An investment earning 3 percent interest:**

\[ 72 \div 3 = 24 \text{ years} \]
If your initial investment is 200 dinars, it will take twenty-four years to reach 400 dinars and forty-eight years to reach 800 dinars.

**An investment earning 6 percent interest:**

\[ 72 \div 6 = 12 \text{ years} \]
If your initial investment is 200 dinars, it will take twelve years to reach 400, twenty-four years to reach 800 and thirty-six years to reach 1,600.

This formula is especially useful for financial estimates and understanding the nature of compound interest.

The benefits of starting to save early far outweigh those of choosing to wait. You should start saving as soon as possible and save consistently throughout your life. With time on your side and a commitment to putting money aside regularly, the money you accumulate will aid you through short-term crises in addition to funding your future retirement.
Chapter 7 - Activity 1

Saving to Reach your Goals

Have you thought about your life after university? You will likely be more financially independent. You will probably earn more money. You will also have more financial responsibilities, perhaps including student loans to pay back over time.

Hopefully this Guide has convinced you how important it is to be disciplined about paying down your debt. Even if you are good about dealing with your debt, it is also beneficial to have some additional money set aside. Those savings come in handy when you want to purchase something that is not normally part of your monthly budget or pay for an unexpected expense.

Saving money is helpful for many reasons and setting goals for saving is a great way to motivate yourself to avoid spending all that you make. It is not difficult to start with short-term savings goals (such as buying a camera) and build up to bigger, longer-term goals (such as paying for a car). Follow the steps below to set up your own savings plan.

1. Define your goals. Make a list of your financial goals and all the things for which you want to save money. There is no limit to the list; just write down all the things that come to mind.

__________________________________ _________________________________
__________________________________ _________________________________
__________________________________ _________________________________
__________________________________ _________________________________

2. Organize your list. Prioritize the items you wrote down by numbering them in order of importance. Then, break your list up into short-term and long-term goals using the chart below, with the most important goals at the top of each column. You might think of short-term goals as those you can accomplish in the next six months. Long-term goals will take longer.

<table>
<thead>
<tr>
<th>Short-Term Financial Goals</th>
<th>Long-Term Financial Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>A new cell phone</td>
<td>A used car</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Your Money, Your Future
Chapter 7: Saving and its Benefits
You will use the chart on the previous page to create an actual savings plan for accomplishing your goals in Activity 3.

3. Think about the benefits of accomplishing each of your goals. A new cell phone might allow you to talk with your cousins more regularly. Maybe the car will allow you to get to school or perhaps to work quicker. Regardless of the costs associated with your goals, recognize that there is an intrinsic value in achieving them.

Take It Another Step
Evaluate how your priorities have changed as you have gotten older. Are there things you want to save for that you wanted when you were 12 years old? How have your priorities changed over time? What are some of the things you are thinking about saving for now that may not be on your list in 5 or 10 years?
Setting aside savings will take some discipline. However, it comes with rewards beyond the assurance of having money available for big purchases or an unexpected challenge. Because of interest or mark-up, saving small amounts over time can add up significantly, as illustrated in the hypothetical situation below.

### Accumulated Savings, Earning 5% Interest Per Year

<table>
<thead>
<tr>
<th>Monthly Savings</th>
<th>5 Years</th>
<th>10 Years</th>
<th>15 Years</th>
<th>20 Years</th>
<th>25 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>18 dinars</td>
<td>1210</td>
<td>2763</td>
<td>4757</td>
<td>7302</td>
<td>10,580</td>
</tr>
<tr>
<td>35 dinars</td>
<td>2416</td>
<td>5514</td>
<td>9493</td>
<td>14,597</td>
<td>21,151</td>
</tr>
</tbody>
</table>

When you have the luxury of time, saving for long-term goals is an easy decision. But there is another important factor in growing your money: the rate of return. Consider the example below, which illustrates what happens to an initial 709 dinars investment at different rates of return.

### Growth of 709 dinars in Savings at Different Rates of Return

<table>
<thead>
<tr>
<th>Rate of Return</th>
<th>Value in 5 Years</th>
<th>Value in 10 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>745 dinars</td>
<td>781 dinars</td>
</tr>
<tr>
<td>2%</td>
<td>784</td>
<td>863</td>
</tr>
<tr>
<td>3%</td>
<td>824</td>
<td>954</td>
</tr>
<tr>
<td>4%</td>
<td>866</td>
<td>1053</td>
</tr>
<tr>
<td>5%</td>
<td>910</td>
<td>1165</td>
</tr>
<tr>
<td>6%</td>
<td>956</td>
<td>1286</td>
</tr>
<tr>
<td>7%</td>
<td>1005</td>
<td>1421</td>
</tr>
<tr>
<td>8%</td>
<td>1056</td>
<td>1569</td>
</tr>
<tr>
<td>9%</td>
<td>1110</td>
<td>1733</td>
</tr>
<tr>
<td>10%</td>
<td>1167</td>
<td>1914</td>
</tr>
</tbody>
</table>
Now, consider the goals that you set for yourself in the previous activity, and answer the following questions:

- How long will it take me to achieve each of my short-term goals?

- What about the long-term goals?

- Will I need to access my money while it is in savings?

- How much can I realistically expect to earn on my savings?

Answering these questions may help you determine what type of savings option will be best for achieving your goals, both short-term and long-term.

**Take It Another Step**
Visit a bank and learn about the savings options available to you. There are many different types of accounts with different rates of return. A bank will be able to set you up with an account that is best for you and your short- and long-term goals. Even if you are not ready to open an account yet, review your options, and ask questions you may have about the different options.
Chapter 7 - Activity 3
Create a Savings Plan

So, you have defined some of your short-term and long-term goals. And you have learned the importance of time and the rate of return on helping you save for and achieve your goals. Now it is time to create a savings plan!

1. In the chart below, fill in the first column with the short-term and long-term financial goals you defined in Activity 1.

2. In the next column, enter your estimate of the amount of money needed to achieve the goal.

3. Then, fill in the amount of time needed to save for the goal, and the amount you will save each month toward that goal. For long-term goals, consider any interest you may earn on your savings. For example, with the car purchase below, you would need to earn about a 4% rate of return on your savings in order to accumulate 2000 dinars over two years.

<table>
<thead>
<tr>
<th>Short-Term Financial Goals</th>
<th>Amount Needed</th>
<th>Length of Time</th>
<th>Monthly Savings Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>A new cell phone</td>
<td>100 dinars</td>
<td>4 months</td>
<td>25 dinars</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long-Term Financial Goals</th>
<th>Amount Needed</th>
<th>Length of Time</th>
<th>Monthly Savings Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>A used car</td>
<td>2000 dinars</td>
<td>2 years</td>
<td>80 dinars</td>
</tr>
</tbody>
</table>

Remember, the earlier you begin saving, the earlier you can reach your goals.

4. Consider the opportunity costs. Are there expenses and activities you are willing to give up in order to reach your goals?
Take It Another Step
Consider goals beyond the financial spectrum. What are some of the things you want to do in your life, regardless of money? Do you want to become a doctor? A parent? Where do you want to spend your time? These are questions that will become relevant when you are developing a financial plan, as they involve managing both your time and your money.