IT'S Money, Baby

How To Make It, Use It And Save It

KHEAA and The Student Loan People
Financial Priorities Quiz:

Are you a saver or a spender? Let’s find out:

It’s your birthday and Aunt Mildred sent you a crisp $20. You:

a) Put it in your savings account
b) Go to the movies and McDonald’s afterwards
c) Buy two CDs
d) Go to the big game

It’s payday from your part-time job. With your check, you plan to:

a) Pay your car insurance
b) Go see THE rock concert
c) Get a pricey haircut
d) Buy a new video game

Your car breaks down and needs $150 in repairs. You:

a) Take it out of your savings. That’s what it’s for, after all.
b) Ask your parents to help you. That’s what they’re for, after all.
c) Save from your next two paychecks.
d) Walk.

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Learning about money isn’t just for accountants and stockbrokers. Everybody needs to know how to manage money and learn ways to make it grow.

The money you have right now may be burning a hole in your pocket for you to buy that killer new CD, hot new outfit or a special-release ringtone for your phone. Or you might be planning on saving it to pay for your car insurance or for your spending money at college.

Financial pathways can include choices like attending college or technical school, which can boost your lifetime earnings with higher salaries.

But even if you never go to college or technical school, knowing what to do with your money will mean you can manage your income and expenses throughout your life.

If you can master money and what to do with it now, imagine what your future financial picture can look like.

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**Common money management issues:**
You might find yourself in financial hot water sooner than you think. Many college students have trouble with the following situations:

- 72% have too many student loans
- 67% don’t know how to budget
- 55% have trouble identifying Needs vs. Wants
- 52% have too much credit card debt
- 38% lack formal personal finance training
- 28% can’t balance a checkbook
Let’s start with the basics. Knowing how and when you get your money and where you spend it is the foundation of financial planning. Then you can master balancing a checkbook and learn to budget your hard-earned dollars through any situation, from credit card debt or money you borrow to attend college.

**A money plan**

A budget, or a money plan, is nothing more than a tool for tracking the money you make compared with the money you spend. Most people would say a budget is a spending plan, but that doesn’t take into account your savings or future investments that can let your money work for you. We like to think ahead and call it a money plan.

Right now, your parents probably cover most of your living expenses; but if you have a job, they probably expect you to contribute toward what they consider nonessentials, like CDs, video games, new clothes, car payments and insurance, not to mention concert or movie tickets.

You can create a budget by estimating how much money you’ll make each month and how much you’ll spend. It’s a great way to avoid running out of money when you need it most.

Best of all, a budget will show you how long it will take to save for a big-ticket item you really, really want.

**Plan your financial goals**

The biggest financial goal is to have more money at the end of the month. If you’re in college, the goal may be to graduate with as little debt as possible. But financial goals can also include saving for a trip, concert or new car. Take out a sheet of paper and list your short and long-term goals, estimating how much money you can reasonably set aside per week or paycheck to meet them. When you break down your goals and how long it takes to save to meet them, you’ll get a better idea of how to finance what you really need to do.
So maybe your inflow isn’t as much as, say, your typical millionaire’s. That means you’ll have to get a job. Many jobs pay minimum wage. Other jobs, like waiting tables, pay less because you’re expected to earn the difference with tips. However much you make, you’ll have to allow for deductions, such as federal and state income tax, Social Security and possibly health insurance.

These sample pay stubs give you a place to learn about where all your hard-earned dollars go.

**STUB A**

**Pizza House, Inc.**

<table>
<thead>
<tr>
<th>Description</th>
<th>Hrs.</th>
<th>Amount</th>
<th>Tax</th>
<th>Current</th>
<th>YTD</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>REG.</td>
<td>6.00</td>
<td>108.00</td>
<td>12.30</td>
<td>123.00</td>
<td></td>
<td>MEALS</td>
<td>8.00</td>
</tr>
</tbody>
</table>

**STUB B**

**Rainbow Glacier Ice Cream**

<table>
<thead>
<tr>
<th>Description</th>
<th>Hrs.</th>
<th>Amount</th>
<th>Tax</th>
<th>Current</th>
<th>YTD</th>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>REGULAR</td>
<td>39.75</td>
<td>239.75</td>
<td>12.30</td>
<td>173.00</td>
<td></td>
<td>401K</td>
<td>25.50</td>
</tr>
<tr>
<td>OVERTIME</td>
<td>5.75</td>
<td>53.94</td>
<td>11.03</td>
<td>220.06</td>
<td></td>
<td>HEALTH</td>
<td>14.75</td>
</tr>
</tbody>
</table>

**STUB A:**

1. What is your hourly pay?
2. How much did you earn this pay period before taxes?
3. How much did you earn this year before taxes?
4. What are your deductions?

**STUB B:**

1. What pay period does this check cover?
2. What is your take-home pay?
3. How much federal income tax has been deducted this year?
4. How much did you put away in a retirement plan?
5. How much did you pay for health insurance?
## Monthly Outflow

Write down what you spend all your money on in an average month, from food, gas or rent to entertainment. Check over your list. Is what you’ve written down something you **must** have, like food, shelter, transportation and clothes? Or is it something that will make your life more enjoyable, like roadtripping with your friends or eating out?

Basically, is it a **need** or a **want**?

Check over your outflow records to see where you spend most of your money.

<table>
<thead>
<tr>
<th>Income</th>
<th>Budget</th>
<th>Actual</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job #1</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Job #2</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Allowance</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Other income</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total monthly income</strong></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fixed Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Car payment</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Car insurance</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Credit card</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Savings</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Food</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Other</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Bus fare</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Gas and oil</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Parking</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Car repairs</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Clothing</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Entertainment</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Personal items</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>School expenses</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td><strong>Total monthly expenses</strong></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>
Evaluating your inflow vs. outflow

So, you’ve tracked your spending for a month. How did you come out? If your income is greater than your expenses, you did just fine.

If you had more month at the end of your money, well, you’re on the right path by evaluating your situation and developing a plan for your money. You’ll need to rethink your spending to get your plan in the black (In the 1920s, on monthly bank statements, a positive balance was written in black ink whereas a negative or overdrawn balance was written in red ink).

Pay yourself first

The most important category in your outflow is savings. Why savings? Well, if you can sock away a small portion of your income (some people recommend between 10 and 17 percent of your income should be in savings), you can begin investing your money earlier and making it grow faster.

When you get your paycheck (or allowance or any income) the first thing you should do is deposit a portion of that paycheck into your savings account (more on savings accounts on the next page).

By taking that money out of your spending pool of cash, you will still have money left over in case you need it after paying your other bills.

Once you’ve accumulated a chunk of savings, you can then invest that money in some safe, short-term investments that can help you meet the cost of inflation, generally earning around 5 percent. By keeping access to your savings, you can tap into it for emergencies but still earn a little interest on it.

Don’t think you make enough to save anything? Check over your receipts and outflow records to find ways to scrape up more money. Do you really need to drink sodas from the vending machine or to make that 251st text message that will send you into overage charges on your phone bill? Watch your spending, and see your savings grow!

NEEDS vs. Wants

OK, here’s the difference between a NEED and a WANT:

You NEED new shoes. You WANT $75 shoes.

You NEED new clothes. You WANT the $150 coat/jacket/dress that’s so hot and in-style.

You NEED to get around. You WANT a new Mustang.

You NEED to eat. You WANT to go out for every meal.

Every time you consider buying something, whether it’s a soda or a CD, ask yourself, “Do I really NEED this?” If the answer’s no, pat yourself on the back and put the money in your savings!
Banks are the foundations of many financial transactions worldwide. By learning more about banks and how their services can work for your money plan, you are taking a key step in understanding personal finances.

**Choosing a bank**

Talk with your parents about their choice of bank and why they picked it over others. Do some investigation about what features your local banks offer for savings and checking accounts, paying close attention to fees charged for ATM withdrawals or debit charges. Banks can require you to have a fixed balance or earn interest on deposit to waive an account fee. Additional fees can add up quickly, so choosing your bank and the type of savings account can make a difference. If you’re planning on going to college (or are already there), you may have chosen your bank because it is a national one with locations close to your school.

**How to open an account**

Banks will review your buying and spending habits by checking your history of writing checks or by doing a full credit report to see if you are a good risk for them to add you as a customer. They’ll take your identification (typically a driver’s license) and your Social Security number to verify your information. Once they determine you are eligible, you can deposit money into your new account, either a savings or checking account.

**Savings accounts**

Banks are great places to keep money — especially savings. However, most savings accounts do not earn much interest (which is where your money works for you by earning you more money — most savings accounts will earn between 1-2%). To keep pace with inflation, you’ll want to park some savings into certificates of deposits (CDs), savings bonds or Treasury bills just to earn up to a 5% return. But that’s after you have a chunk of savings you can afford to put away for at least six months. Until then, stash away as much money as you can and don’t spend it if you don’t absolutely have to — that money can start working for you with as little as $500 saved! Remember, pay yourself first. You’ve earned it!

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**Why put money in the bank?**

Here are a few reasons given by the FDIC, which insures bank deposits up to $100,000.

**SAFE** — Your money is safe from theft, loss and fire.

**CONVENIENT** — You can access your money quickly and use direct deposit to make your money available sooner than if you deposited a check that must clear.

**COST** — Using a bank is probably cheaper than other ways to cash a check.

**SECURITY** — If the bank closes and cannot refund its customers their money, the FDIC will return up to $100,000 to consumers.

**FINANCIAL FUTURE** — Building a relationship with a bank can help you save money and get a loan, not to mention a record of the bills you pay with their service.
**CHECKING ACCOUNTS**

Checking accounts let you write checks or use a debit card to withdraw money you’ve deposited in the bank. The bank pays the person or business named on the check and sends you a monthly statement of deposits and withdrawals called a bank statement. As you write checks or take money out of an automatic teller machine (ATM), you write down the check number, the date, who the check is written to and how much it’s for in the debit column of your check register. You also write down the date and amount of deposits and bank fees so you can keep track of your account balance.

**CHECKBOOK REGISTER**

<table>
<thead>
<tr>
<th>NUMBER</th>
<th>DATE</th>
<th>DESCRIPTION</th>
<th>PAYMENT/DEBIT(-)</th>
<th>FEE(-)</th>
<th>CODE</th>
<th>DEPOSIT/CREDIT(+)</th>
<th>$ BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>099</td>
<td>3/6</td>
<td>SPEEDY MART (gas)</td>
<td>23.59</td>
<td></td>
<td></td>
<td></td>
<td>564.69</td>
</tr>
<tr>
<td>100</td>
<td>3/7</td>
<td>PIZZA XPRESS</td>
<td>16.49</td>
<td></td>
<td></td>
<td></td>
<td>548.02</td>
</tr>
<tr>
<td>101</td>
<td>3/7</td>
<td>ELECTRIC CO.</td>
<td>45.81</td>
<td></td>
<td></td>
<td></td>
<td>502.21</td>
</tr>
<tr>
<td></td>
<td>3/7</td>
<td>PAYDAY!</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>738.34</td>
</tr>
<tr>
<td>102</td>
<td>3/9</td>
<td>CELL PHONE</td>
<td>35.98</td>
<td></td>
<td></td>
<td></td>
<td>702.76</td>
</tr>
<tr>
<td>103</td>
<td>3/9</td>
<td>KICKIN MART</td>
<td>13.19</td>
<td></td>
<td></td>
<td></td>
<td>628.97</td>
</tr>
</tbody>
</table>

A debit card is an easy way to access money in your checking account without writing a check. Money is **immediately** withdrawn from your account when you buy something with a debit card. You **still** need to track purchases by recording them in your register. You can also get a prepaid debit card without having a traditional checking account, but you will be charged a monthly or annual fee, plus additional fees each time you use it at an ATM. Consider your money habits carefully before going with a prepaid debit card: if you constantly go to the ATM, those fees can rack up quickly. This is where your choice of bank and the features it offers will really pay off, since you don’t want fees to eat up your money.

**CHECKBOOK REGISTER:**

1. What check number is this?
2. What’s the going rate for pizza these days?
3. How much was your paycheck?
4. What is your balance?

**Debit vs. Credit Cards:**

Think you know the difference between debit and credit cards? Since a debit card is tied to your checking account, it automatically takes the money from it. There is no grace period; you spend it, it’s gone. A credit card, however, offers you a 30-day interest free loan if you pay the balance each month in full. (Which you should always do. Who wants to pay 19 percent interest (– or more – on pizza?)
Balancing your Checkbook Worksheet:

Here’s how to balance your checkbook so you don’t get hit by bounced check fees (which can add up quickly, most banks charge $25 or more per bounced check. Most merchants also charge a fee)

<table>
<thead>
<tr>
<th>Outstanding Checks (not included on your statement)</th>
<th>Outstanding Deposits (not included on your statement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>Amount</td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>Total</td>
</tr>
</tbody>
</table>

1. Ending balance from your bank statement $______
2. Add total outstanding deposits + ______
3. Subtract total outstanding checks - ______
4. New balance (should equal your balance after you record interest and fees in your checkbook register) ______

Know Thy Balance

You need to monitor your spending carefully. You should know your general bank balance each time you make a transaction, because if you write a check or try to debit money that isn’t there, you’ve bounced a check or your card will deny you the purchase.

By balancing your checkbook every month, you can keep an eye on your money and fees your bank is charging you. Sometimes, you can even spot a rare error. Most banks have a time limit (generally 60 days) on disputing errors on your account, so the sooner it’s spotted, the sooner you can take care of it. Most banks also offer online access to your account so you can monitor your spending and see what checks have cleared.

When your bank statement is mailed to you, gather your check register in which you’ve faithfully recorded all your checks, deposits and debit card transactions and a calculator. Double-check your register to make sure all deposits are recorded. Also, if you earned any interest on your deposits, record that.

Then, double-check your spending transactions (checks and debits), including fees. Make sure those are entered into your register, adding the deposits and subtracting your checks and debits until you have a balance on your register.

Now, get your statement. Note the checks that are not listed on your statement as you may have written checks after the bank’s closing date and list them in a column (typically banks include a worksheet plus instructions on the back of your account statement, see at left). Add them up; then subtract them from your ending balance shown on the front of your statement. If you’ve made deposits that are not shown on your statement, add that figure to your worksheet. Subtract your total outstanding checks and the figure you reach should equal your checkbook balance.
Compounding

Once you have a handle on your monthly expenses with your money plan, you’ll want to put some money aside in your savings account. Don’t worry if you can’t save much at first, because you are just getting used to your money plan. But do try to sock away as much as you can every week or every paycheck. It will add up faster than you think, which will come in handy when you are ready to benefit from compound interest.

When you invest money, the money you invest earns money called interest. Compound interest is when your money (let’s call it capital) AND your interest earn money over the next year. In the third year, you earn money based on your capital plus your first two year’s interest.

If you start investing early in your life, you can have many more years to take advantage of what Albert Einstein called “the most powerful force in the universe.” And it doesn’t take much cash to invest to make big bucks. If you faithfully save $100 a month for 40 years and earn a 12% return (stock markets average 10%, usually), you’ll wind up with $980,000! You could be a millionaire by the time you retire, depending on your rate of return. And you don’t have to have thousands to start investing; some plans are as little as a few hundred bucks. So, save away and then let your money work for you for a change.

The rule of 72

The Rule of 72 shows how many years it will take for your investment to double by dividing 72 by the interest rate of growth. If you invest $300 today at 8%; you would divide 72 by 8 = 9 to estimate it will take nine years to double your money. If you are earning 12%, it will only take six years to double that $300. The rule is based on compounding interest once a year; if your investment compounds more often, you will make even more money. If you start young, you’ll have more time to watch this marvelous force work for you. Even if you don’t think you can invest in the stock market, just paying a few extra bucks on your credit card bill can demonstrate the Rule of 72 in reverse. By paying more, you eliminate more of the principal (and the interest) credit card companies charge you to use their product, which will cost you less in the long run.

Famous Compounding History

Compounding has been around since ancient times. However, the most famous compounding exercise of all has to be the sale of the Island of Manhattan in New York in 1626. As the story goes, Peter Minuit, a director of the Dutch West India Trading Company, bartered sixty guilders (about $24) worth of beads and trinkets to local Lenape Indians in exchange for the island. There is some doubt that actual beads were involved in the transaction, but that’s another story. Was this a good deal or not?

Let’s see. What would be the value of $24 if Minuit had invested it instead at 8% interest, compounded annually for 380 years? (1626-2006)? At first sight, this seems like the deal of the century. Given today’s real estate values in New York, this appears to be a great deal for Minuit. Also, keep in mind that Minuit bought undeveloped land. Now, if you run the numbers, you’ll discover that the original $24 would have grown to a staggering...

$120 Trillion!

Yes, you read it right, not million, not billion, but trillion. This is actually more than the estimated value in today’s dollars of all today’s improved real estate on the 31-square mile island. So which would have been the better investment — the land or the money?

— HowtoAdvice.com
How to avoid a $500 cell phone bill

A majority of high school and college students have cell phones — and sometimes a huge bill that goes with it. In many ways a cell phone is a lot like a credit card — it’s convenient, it’s nice to have in the event of an emergency and you can quickly get in way over your head. Over half of college students are on their parent’s family plan, and typically parents pay the bill, according to 2005 independent study from M:Metrics.

Pick the right plan

Your primary consideration in mobile phone service may be to compare your existing family plan with an independent one, depending on several factors. Does your family plan carrier cover your campus with few dropped calls? If the answer is no, investigate which carrier offers the best plan for your needs and covers the area where you are going to be making the most calls. Are you a heavy texter? If so, get a plan that includes 2,000 messages a month.

If you do make the decision to have a cell phone, use it wisely. Fees, taxes, surcharges, activation fees, overage and roaming charges can all add up — BIG TIME! Get the bottom-line cost for your first bill, including an itemized calculation of all costs, including taxes, activation fees and cost of the phone itself and get it in writing from your company.

You don’t want to be surprised with a huge cell phone bill. The best way to avoid it is to get a prepaid phone. A prepaid cell phone allows you to know exactly what you are spending and won’t allow you to go over your minutes.

El-cheapo phone tips

1) Before dialing, ask yourself what type of minutes you are using. If they are “off-peak” or “out-of-plan,” don’t do it.

2) Monitor how many minutes you have used for the month. Check by simply calling a service number or check your plan to use your phone. Companies can charge more than 45 cents for every minute you go over your minutes, and they certainly aren’t going to call and let you know when that happens. It is your responsibility.

3) Avoid cell phone “extras.” You don’t need to buy every downloadable ring tone, background or game available. All those extra costs can add up quickly.

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KHEAA and The Student Loan People
**Helpful Shopping tips**

A cell phone contract is a legally binding one — and remember that a contract written by a company that you must sign typically is written to favor the company’s bottom line, not yours.

Make sure to read the fine print of any contract, but pay close attention to the one called “Terms and Conditions,” which outline what you are agreeing to abide by when you sign.

Look for a two-year contract commitment and pay attention to contract termination fees (sometimes up to $200!) and a “free trial” period. You can review the service agreements of many cell phone companies on the Internet. Check them out and compare before you sign the dotted line!

**The phone upgrade fee:** This fee is charged when you buy a new phone from your existing carrier. But typically, retail outlets don’t inform you of this fee; you’ll find out about it on your first or second months’ bill. It should be mentioned in your contract, so check it out before changing your phone.

Don’t rely on oral promises about your contract or your bill — make sure you get any promises or agreements in writing and file them with your signed contract in case of a dispute. If you don’t want to pay the phone upgrade fee, you can switch to another carrier, but you’ll have to pay an early termination fee.

You can always call customer service and request the fee be removed, which may or may not work.

**Overestimate your minutes (and text messages!):** It’s hard to guess the minutes (or text messages) from month-to-month. So go overboard when picking a plan so you’ll never have to pay 45 cents a minute when you go over. For text messages, each one made and received can earn a 10-cent charge if your plan doesn’t include them. Make sure you know what each carrier’s terms mean; each one can be different.

It’s handy to have a phone, but not if you’re going broke staying in touch. Be conservative with your money by watching your minutes, tailoring your plan to your needs and reviewing any charges you haven’t anticipated.

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**Choosing a Cell Carrier**

1) Check out what terms like “night,” “weekend,” “off-peak” and “anytime” minutes mean to the companies you’re choosing from. They don’t all mean the same from each company.

2) Who pays for incoming calls on your plans?

3) Is there a roaming charge?

4) Ask for an estimate of taxes, fees and surcharges. That $59.99 plan could cost you over $70 a month with those added fees.

5) Can I use my phone with another carrier?
Besides your age, there are several factors that affect how much you’ll pay for insurance, like:

- Your credit history (See page 22)
- The kind of car you drive
- What kind of job you have
- Your good grades (you can earn a discount)
- No wrecks, no tickets

That’s why it’s important to find out how much insurance will cost BEFORE you buy your car. First, narrow your choices to two or three cars. Then call your insurance agent to get a quote. Sometimes a more expensive car can save you a lot on insurance. Finally, if you use your car on the job — say, delivering pizzas — you may have to pay more for insurance.

A word to the wise if you customize your car with special wheels, lights or a new sound system. You’ll have to pay extra to have these covered by your insurance policy. You decide if it’s worth the cost to cover them if they’re damaged or stolen.

Kentucky law requires every driver to have car insurance.

Because teenagers and young adults don’t have as much driving experience as adults, insurance companies believe they’re a bigger risk to insure. That means you’ll pay more for insurance than someone who’s older.

You must purchase insurance to cover any damage you do to someone else’s property or person. That’s called “liability,” and it isn’t negotiable. “Collision” insurance covers repairs to your car if you have an accident. Unless you owe the bank money on your car, you probably don’t have to have collision or comprehensive coverage, especially if your car is older. Not having collision insurance will save you money. Unless you have an accident.

Here are the main types of auto insurance:

**Liability**
- Covers bodily injury and property damage if you hit someone else’s car.
- Liability insurance makes up about 40% to 50% of your premium.

**Collision**
- Pays for physical damage to your car if you’re in an accident.
- You must pay your deductible amount first.

**Comprehensive**
- Replaces damaged windshields and repairs damage caused by hail, flooding, theft, vandalism, etc.

**Personal Injury Protection**
- Pays medical expenses, lost wages and other out-of-pocket costs if you’re hurt, regardless of who’s at fault.

**Uninsured Motorist**
- Covers your medical costs if you’re hurt in an accident by an illegally uninsured driver.

**Towing and Labor**
- Pays these emergency costs when you need them.

**Rental Reimbursement**
- Pays you to rent a car while yours is being fixed if you have an accident.
Other Insurance.
Besides car insurance, there are other types you’ll need to know about. When you buy an insurance policy, you have an agreement with the insurance company that they will pay you for losses covered under your policy.

Health
Health insurance is the big ticket item most people pay big bucks for. Ask your parents if you’re still covered under their policy and if so, for how long. Generally, unmarried children under age 19 are covered and can extend to age 25 if you’re a full-time student taking 12 or more hours in college or another school. If you get married, you’re automatically an adult and lose your “dependent” status. Once you graduate and get your first “real job,” you’ll have the opportunity to buy the health plan offered by your employer.

Renter’s/Homeowner’s
For now, you might want to consider renter’s insurance, which protects your stuff as if you owned a house. Especially if you have nice stuff, renter’s insurance can pay you if it gets stolen, burned in a fire or blown away by a tornado. Check with your parents’ insurance agent to see if you are covered by an off-premises provision of their policy when you live in a dorm. If you live off-campus, you won’t be covered under the provision and need to buy renter’s insurance. When deciding how much coverage to buy, consider replacement vs. actual cash value costs. Replacement means if stolen, you’ll get the same brand-new item; actual cash value will give you an amount based on its used value based on depreciation. If you have really nice stuff like jewelry or stereo, consider buying extra coverage, called a rider, on those items.

Were you born to be wild?
Keep in mind:
• Cars with bigger engines cost more to insure
• Cities have more traffic than small towns, so where you live affects how much you pay for insurance
• If someone else drives your car and causes an accident, you can be held responsible if they don’t have insurance
Credit Cards

Paying Off Debt
Let's say you get a credit card with a $2,000 limit. You spend $1,500. (And remember, you're not just spending, you're borrowing and spending — big difference.) Your easy-as-pie monthly payment is just $25, and you can come up with that easily. That's a good thing, because even if you make that payment, on time, every month, without fail, you'll be paying for that pizza, those school supplies and that tank of gas for the trip home for a very, very long time.

The Ugly Truth.
Take a look at the graph below. To the left, you'll find various rates of interest. (Yours will most likely be the last one.) The bars show how long it will take you to pay off the debt by just paying the minimum payment.

How long it will take to pay off a $1,500 debt

<table>
<thead>
<tr>
<th>Interest Rate</th>
<th>Years to Pay Off</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.8%</td>
<td>7.3 years</td>
</tr>
<tr>
<td>13.8%</td>
<td>8.5 years</td>
</tr>
<tr>
<td>16.8%</td>
<td>11.0 years</td>
</tr>
<tr>
<td>19.8%</td>
<td>23.5 years</td>
</tr>
<tr>
<td>22.8%</td>
<td>NEVER (Actually, they refer to it as INFINITY. Yikes!)</td>
</tr>
</tbody>
</table>

Rule of thumb: Monthly payments on your debt (your car, appliances, furniture, credit cards, bank and student loans) should amount to no more than 20% of your income.

Easy Street?
So how does a textbook, couple of pizzas and maybe a few more odds and ends, end up costing you a small fortune? Glad you asked. It’s because (we bet you’ve heard this before) there’s no such thing as a free lunch (told you). Let’s say you’ve filled out the form that a friendly credit card representative gave you during freshman orientation. And you just found out that they have given (probably not the right word) you a credit card with a line of credit of $2,000. Congrats!

But after pizzas, parties, books, student fees and all the other things that you just didn’t have the cash for, you can owe $1,500 to the credit card company.

No problem, right? The minimum payment is just a few dollars a month, and you haven’t even reached your credit limit. You’re livin’ on easy street, ’cause credit cards aren’t real money, right? Well, yes. ’Cause you’d have to be crazy to ruin your finances like that.

Compare offers
Once you’re 18, you are eligible for a credit card. You’ll find this out pretty quickly since most credit card companies put booths all over campus the first couple of weeks of school. They might even give you a T-shirt or other novelty item as an incentive to sign up. But be warned — just as you shopped for a bank and a cell phone plan that works for you, you need to compare credit card offers too. Some charge an annual fee, others require a deposit equal to the amount of credit you have available — not a bad idea, since you can’t charge over this limit.

You can get in way over your head with bills you can’t pay by charging on your card. College administrators say they lose more students because they’ve got to go to work to pay their credit card bills than because they were flunking school.

You might feel like your plastic really isn’t money. But if you don’t pay more than the minimum balance, or worse, avoid paying the bill for a couple of months, your credit will be shot. If you do find yourself in trouble and unable to pay, that’s a black eye on your credit report (more about that later) for up to seven years.
**Your $50 textbook bought on a credit card and paid over time**

<table>
<thead>
<tr>
<th>Finance period</th>
<th>10.8%</th>
<th>13.8%</th>
<th>16.8%</th>
<th>19.8%</th>
<th>22.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>$55.68</td>
<td>$57.35</td>
<td>$59.08</td>
<td>$60.85</td>
<td>$62.67</td>
</tr>
<tr>
<td>4 years</td>
<td>$76.87</td>
<td>$86.56</td>
<td>$97.45</td>
<td>$109.68</td>
<td>$123.41</td>
</tr>
<tr>
<td>5 years</td>
<td>$85.59</td>
<td>$99.29</td>
<td>$155.15</td>
<td>$133.48</td>
<td>$154.68</td>
</tr>
<tr>
<td>10 years</td>
<td>$146.53</td>
<td>$197.19</td>
<td>$265.17</td>
<td>$356.34</td>
<td>$478.49</td>
</tr>
<tr>
<td>15 years</td>
<td>$250.83</td>
<td>$391.59</td>
<td>$610.66</td>
<td>$951.26</td>
<td>$1,480.21</td>
</tr>
<tr>
<td>20 years</td>
<td>$429.39</td>
<td>$777.65</td>
<td>$1,406.31</td>
<td>$2,539.46</td>
<td>$4,579.04</td>
</tr>
</tbody>
</table>

**Explain in writing**

If you do have a bill you can’t pay, whether it’s for a credit card or not, contact the company **immediately** to work out a payment arrangement. Whatever you do, don’t ignore letters from people you owe! This just makes companies more aggressive in trying to contact you and get their money back because you look like you’re hiding.

It’s best that you explain everything **in writing**, so you have a record of it, rather than calling. Most companies will work with you if you are upfront about a temporary lack of cash. Ask if the creditor will waive any penalty fees and extend your payment period after you explain you’re having a temporary financial setback. If you don’t communicate with your creditors, they’ll call and keep calling to get their money. Trust us, collection agents are no fun to deal with.

If you do find yourself in a bind, look at your finances and figure out your budget before writing your creditors. Here’s a sample letter:

**Dear Creditor,**

I am currently having difficulty paying my bills since I have not found a job after graduation. Based on my household expenses, I am asking your company to accept a reduced payment on my debt for the next several months while I look for a job. Instead of the $75 minimum monthly payment, I can pay $45 during this emergency. Once I am employed, please rest assured I will again resume my normal payments and notify you immediately.

**Sincerely,**
Your name
Address
Account number
Are you in over your head with credit card debt?

• Are you taking cash advances on your credit cards to pay your everyday living expenses?
• Are you taking cash advances to pay on your other credit cards?
• Are you spending over 20 percent of your income on installment credit?
• Are you charging purchases you used to pay for with cash?
• Are you making only minimum payments on your credit cards?
• Is your overall debt increasing every month?
• Do you owe more now than you did this time last year?
• Are you using more than 3 credit cards?
• Are you paying late fees and high interest charges?
• Are you paying your bills later and later?
• Are you hearing from bill collectors, asking when they can expect their money?

Recognizing the warning signs of getting in over your head is only half the battle. Once you know you have a problem, you have to do something about it.

What the Credit Card Companies don’t want you to know

The fine print! The law requires the following information (or something like it) be written on your credit card application form. Unfortunately, there’s no law that says you’ve got to read it. (But you should.) So, to help you make sense of the fine print, we’ve listed what all that stuff means. (Note: This part of the credit card sales pitch is not usually found in the same section as the information about how easy it is to rent movies or buy CDs with your new card.)

Remember, credit cards (like debit cards) are useful tools. They can help you build a good credit history (if you pay all your bills on time) and help you get lower interest rates to buy cars, get insurance and maybe even an apartment. A credit history or credit report lists all accounts you have and if you’ve paid your bills on time. If you haven’t, you earn a much lower score than if you did. Prospective employers may also check your credit history to see if you are responsible.

Credit cards offer security in emergencies and a reduced need to carry cash as well as enhanced personal responsibility. But don’t squander your good name on too much of a good time!

Over-the-Credit-Limit Fee

(The $29 “Oops!”)

This charge is the penalty for going over your credit limit. And worse, if you don’t pay it right away, it will be added to your bill and you’ll pay interest on it!

Rebate Terms and Conditions

(Something for nothing?)

So you’ll get 3% back on your purchases, if you’re good. And, if not, there are over a dozen terms that will stop you from getting that money back. And remember, the rebate program may be changed or cancelled at any time. Bottom line: Rebate or no — do you really think that putting charges on your credit card is the best way to make money?
Annual Percentage Rate for Purchases
(What you pay for the money you owe.)

Annual Percentage Rate for Purchases
(The rate is a variable rate as described herein. The variable rate, if calculated today (August 1, 2006) based on the current Prime Rate of 8.5%, would be 17.99% APR.)

Variable Rate Information for Purchases

Grace Period for Repayment
("Pay as you play")

If you can manage it, this is a great way to build good credit — although the credit card companies don’t like it much. Of course, if you could do that, you wouldn’t need to put it on a credit card.

Grace Period for Repayment
(“Pay as you play”)

Grace Period for Repayment
If on purchases of 25 days (from the statement closing date to the payment due date).

Over-the-Credit-Limit Fee

APR Information
(Cash from your Card)

APR Information
("When the banks are closed")

It’s always nice to have cash on hand, but it comes with a price. So remember, cash costs more. And if you’re late paying it back — a lot more. When your credit card company sends you “cash advance” checks, tear them up immediately.

APR Information
("When the banks are closed")

APR Information
(“When the banks are closed”) It’s always nice to have cash on hand, but it comes with a price. So remember, cash costs more. And if you’re late paying it back — a lot more. When your credit card company sends you “cash advance” checks, tear them up immediately.

Over-the-Credit-Limit Fee

Over-the-Credit-Limit Fee
($29.00 each month balance exceeds credit limit.)

Rebate Terms and Conditions

You earn a 3% rebate on net purchases (net purchases are purchases less returns for credit) made during each billing cycle in which transactions, including convenience checks and balance transfers, do not qualify for the rebate. The rebate will be calculated each calendar year based on cumulative net purchases posting to your February through December billing statements and will be paid by check once a year before March 15. If your total rebate is $2 or less, it will be forfeited. The maximum rebate you can earn is $100 per billing statement, $100 per calendar year. Your account must remain open and in good standing for all rebates accrued through the billing cycle in which the account was closed or the delinquency or default occurred. Rebates have no cash value and are not earned until they are redeemed. The terms and conditions of the rebate program may be changed or cancelled at any time and for any reason. Certain other restrictions may apply. Please see the Rebate Terms and Conditions accompanying the credit card.

Rebate Terms and Conditions

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Minimum Finance Charge

Minimum Finance Charge
($0.50)

Minimum Finance Charge
(Interest on nothing)

Minimum Finance Charge
(Interest on nothing)
You use the card; you pay this — even if you pay off the entire monthly balance.

Minimum Finance Charge

Minimum Finance Charge
($0.50)

Minimum Finance Charge

Minimum Finance Charge
($0.50)

Minimum Finance Charge

Minimum Finance Charge
($0.50)

Late Payment Fee

Late Payment Fee
(“Every time you’re late”)

Late Payment Fee
(Late Payment Fee
(Every time you’re late)

Late Payment Fee
(Every time you’re late)

Late Payment Fee
(Every time you’re late)

Late Payment Fee
(Late Payment Fee
(Every time you’re late)

Late Payment Fee

Late Payment Fee
($29.00)

Late Payment Fee

Late Payment Fee

Late Payment Fee

Late Payment Fee

Late Payment Fee

Late Payment Fee

Late Payment Fee

Late Payment Fee
(Late Payment Fee
(Every time you’re late)

Late Payment Fee
(Late Payment Fee
(Every time you’re late)

Late Payment Fee
(Late Payment Fee
(Every time you’re late)
Show me!

Okay, so you’ve decided you’re going to college (or are already there). **Smart money move!**

If you earn a bachelor’s degree, you can typically bank over $15,000 more a year — that’s just under half a million bucks during a 30-year career.

Your **best** source of financial aid information will be the financial aid office of your school. A typical financial aid package consists of a combination of grants, scholarships and student loans. You may also be able to work part-time to reduce the amount of money you have to borrow (and pay back later). Check with your financial aid office to see if you qualify for the Federal Work-Study program. You can always find a job off-campus, too.

A formula set by Congress is used to calculate financial aid. To find out what state and federal aid you qualify for, you and your parents need to fill out the Free Application for Federal Student Aid (FAFSA), which is available online at www.fafsa.ed.gov. Your school may require an additional application for its grants and scholarships — check with your financial aid office before submitting your application.

Even if you may already be in college, you’ll still have to file a FAFSA **as soon as possible after** January 1 to reapply for financial aid and get an award each year.

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This graph gives the 2003 median earnings of people in Kentucky over age 25, both sexes, who work year-round at a full-time job, based on their level of education. A median is a middle value, so the number of people earning less than the median is equal to the number of people earning more than the median.
Don’t borrow Trouble

A college education increases your earning potential and opens doors of opportunity. But keep in mind that when you take out a student loan, you’re borrowing against your future earnings. Borrowing responsibly can improve your quality of life in the future. Taking out a loan is a huge responsibility. Don’t take it lightly. The money you borrow must be paid back to the lender over a period of time, and it can’t be discharged because you didn’t get a job in your field or if you declare bankruptcy.

Shopping for a lender

Just like shopping for a bank, credit card or cell plan, make sure to check out different student loans. Under federal guidelines, lenders are allowed by law to charge up to a 2% origination fee for Stafford Loans. Some lenders don’t charge this fee or offer a discounted fee. Many lenders also offer repayment incentives that can reduce the amount you repay. You may get a reduced interest rate for automatic bank drafts or for making payments on time.

Your financial aid office probably offered you a preferred lender list along with your student loan paperwork. Check out the lenders’ websites to see what discounts or incentives they might offer you to save you money after graduation. You can choose any lender you want, even if it’s not on your school’s list.

Some lenders also sell their loans shortly after you receive your disbursements. If the system works as it’s supposed to, you shouldn’t have any problems. But you may owe several lenders when your loans enter repayment.

If you have a student loan already, you learned about deferments and forbearance in your entrance counseling. You have the right to get a deferment if you qualify and provide any required documentation.

You can request a forbearance period if you’re having trouble repaying your student loan and are not eligible for a deferment. Forbearance is a temporary reduction or suspension of monthly payments granted at the lender’s discretion. Some lenders are more lenient with forbearance than others. You can usually get a feel for a lender’s forbearance policy by the information about forbearance on its website.

How much can I borrow?

Because student loans must be repaid, it’s important to remember to borrow only what you need to meet your educational expenses. Keep in mind that you’re borrowing against your future salary, and you should borrow reasonably in relation to what you expect to earn after graduation. It is recommended that you limit your borrowing so that your monthly payment is no more than 10-15% of your monthly gross salary. Check with the career services or placement office at your school to get an idea of what your expected salary may be based on your major or program of study and the year you’ll graduate.

<table>
<thead>
<tr>
<th>Expected Salary</th>
<th>Maximum Manageable Monthly Payment</th>
<th>Manageable Education Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15,000</td>
<td>$125.00</td>
<td>$10,191.38</td>
</tr>
<tr>
<td>$17,500</td>
<td>$145.83</td>
<td>$11,899.95</td>
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<tr>
<td>$20,000</td>
<td>$166.67</td>
<td>$13,598.51</td>
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<tr>
<td>$22,500</td>
<td>$187.50</td>
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<td>$25,000</td>
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<td>$27,500</td>
<td>$229.17</td>
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<tr>
<td>$40,000</td>
<td>$333.33</td>
<td>$27,177.02</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Initial Debt at Repayment</th>
<th>Monthly Payments</th>
<th>Total Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>$ 2,500</td>
<td>$50</td>
<td>$2,900</td>
</tr>
<tr>
<td>$ 5,000</td>
<td>$58</td>
<td>$6,960</td>
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</tr>
<tr>
<td>$100,000</td>
<td>$1,151</td>
<td>$138,120</td>
</tr>
</tbody>
</table>
Credit Score

Why worry?

While you’re in college, you are building a credit score with the bills you pay, from utilities to credit cards. If you have a history of paying your bills late, it will be reported and will affect the interest rate you pay on your credit card or car, your apartment deposit — even your car insurance! When you get a bill, pay it on time— every month.

A credit score is a number between 300 to 850 based on your payment history. A credit score is used by a lender to help determine whether a person qualifies for a particular credit card, loan, insurance or service. Most credit scores estimate the risk a company incurs by lending a person money or providing them with a service — specifically, the likelihood that the person will make payments on time in the next two to three years. Generally, the higher your credit score, the less risk you represent.

Some people think you have to have a credit card to build a credit score. But if you open your utility accounts in your name instead of your parents’ and then apply for and get a store credit card (try to buy something and pay it off in full for a couple of months), you can build a quite respectable credit score of 700 within six months. (“Good” credit begins at the 700-score range).

Buy now, pay later?

Want to pay more for everything you buy? Easy. Charge your credit cards to the limit, open a bunch of credit card accounts, miss payments (or pay them late). Any late payment stays on your credit report for seven years, even if you’ve completely paid off the creditor. It’s better to start off on the right foot by establishing checking and savings accounts, pay all your bills on time, use your credit cards (if you HAVE to have them) sparingly and pay the bill off every month.

Did we mention to pay your bills every month? If you do, creditors will see you are a person who honors your financial commitments. They’ll think you really know how to manage money, and they’ll want to let you use some of theirs to buy a house or a car at a lower interest rate than your deadbeat pals who don’t even open their bills.

Check your credit

Under the Fair and Accurate Credit Transactions Act (FACT Act), consumers can request and get a free credit report once every 12 months from each of the three nationwide consumer credit reporting companies.

Equifax
800-685-1111
www.equifax.com

Trans Union Corporation
800-916-8800
www.transunion.com

Experian
888-397-3742
www.experian.com

AnnualCreditReport.com provides consumers with the secure means to check their credit.
Identity Theft

As a consumer you can take several steps to protect yourself from identity theft.

The first step is to protect your Social Security number, bank account and credit card numbers, PINs, passwords and other personal information. Never provide this information in response to a phone call, a fax, a letter or e-mail you receive — no matter how friendly or official the circumstances may appear.

Also be aware that friends, family members, roommates and workers who come into homes make up a large percentage of identity thieves. They often are in the best position to find and use confidential information.

For incoming mail, pick up your mail as soon as possible after delivery, or use a locked mailbox. For outgoing mail, put it in a blue Postal Service mailbox, hand it to a mail carrier or take it to the post office. Shred any documents that contain personal or financial information.

Never provide bank, credit card or other sensitive data when visiting a website that doesn’t explain how your personal information would be protected, including its use of “encryption” to safely transmit and store data.

On your personal computer, install a free or low-cost “firewall” to stop intruders from gaining remote access to your PC. Download and frequently update “security patches” offered by your operating system and software vendors to correct weaknesses that a hacker might exploit.

Con artists often pose as charities or business people offering jobs, rewards or other opportunities. They hope that trusting souls will send cash or checks, provide SSNs or credit card numbers, or wire money from a bank account.

Easy Money Tips

Don’t get in over your head with student loans, buying clothes, eating out or living a lifestyle you can’t pay for.

Buy used textbooks online — and sell your unwanted books back online, too.

The College Board says the average student will graduate with over $15,500 in student loans — not to mention hold an average credit card balance of over $3,000 as reported by Nellie Mae. Use your student loans wisely and for school expenses (trips to Daytona are not school expenses).

Buy smart by being a good consumer. Do research before making an expensive commitment to buy something on impulse. Comparison shop — you might find bargains farther away from campus.

Finish your degree and get a job in the field you want.

Always have a budget, a checking account you monitor carefully and a credit report you check every year for accuracy and for possible identity theft.

Thank you for letting KHEAA and The Student Loan People help you reach your money goals. Remember, It’s YOUR money, baby!
Is your future looking up?

Reaching your college goals isn’t difficult. If you’re heading to college, you need to talk with us. Whatever type of financial aid you need, whether it’s grants, scholarships, work-study or loans, we can help. Call 800.928.8926 or visit kheaa.com.

We can help you reach your potential

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