

Consumer Alert

Educating South Carolina's Consumers

A Publication of the South Carolina Task Force on Fraud



www.sconsumer.gov

August 2007

Volume 2, Issue 8

Student loans: Higher education and higher debt

An enormous amount of pressure is placed on high school graduates to enroll in a college, technical university, or job-training institute. Very few students, however, can afford to attend such institutions without taking out student loans. While education loans are generally considered a "good debt," students are cautioned not to take a good thing too far.

Today, the average college graduate leaves school with a diploma and about \$18,000 in debt. Many students, however, go far beyond those numbers with \$30,000 and \$40,000 in student

loans. These debts present a tremendous burden on new graduates who should be preparing to save for other goals such as a house or retirement.

How much is an acceptable amount of student debt?

Obviously, the less borrowing you have to do the better, but in most cases it's simply impossible for a student to graduate without any educational debt. Keep these guidelines in mind before signing your student loan.

If you're a student, payment should not exceed 10% of your expected monthly gross income once you graduate.

If you're a parent, all of your debt – including mortgage payments, credit cards, car loans, etc. – shouldn't constitute

more than 35% of your gross pay.

Once you begin borrowing, keep track of your debt. It is very easy to get confused when taking out loans from multiple lenders. Additionally, many loan operations will send unsolicited

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"Congratulations, now where is the money you owe me?"

It's that time again: Back to school scams

South Carolina's annual tax-free holiday weekend is here, which means the start of another school year is just around the corner. If you're like most parents, rising tuition, book costs, and school fees are forcing you to apply for more scholarships and financial aid. Before applying, make sure you do your homework.

The South Carolina Department of Consumer Affairs is warning all parents and students to watch out

for fraudulent scholarship services and other back-to-school scams. Scam artists pose as scholarship representatives and offer to complete application forms. Some charge for information that can be obtained for free. They may also guarantee financial aid or request financial information to confirm a scholarship.

In contrast, legitimate

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National Night Out — August 7

National Night Out gives communities a chance to speak out about crime prevention. This year, the event was sponsored by communities across the nation on August 7. Communities gathered together to learn about what they can do to prevent crime, especially crimes



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The Help Desk: *What is the difference between good debt and bad debt?*

The average person falls into one of two schools of thought on debt. Debt is either the root of all evil and should be avoided in any and all circumstances, or debt is omnipresent and nothing to be too concerned over.

Debt is much more complex than this simple dichotomy. Some debts are “good,” some are “bad,” and it’s important to distinguish between the two. Used properly, debt can be an enormous fiscal tool to help build long-term capital gains.

Typically, good debt is defined as a loan that provides greater financial security or is used to purchase an item that

will outlive the life of the loan.

Bad debt is the opposite. Bad debts are used for quickly consumed items that provide no long-term financial advantage.

An example of good debt that provides greater financial security is student loans. While the student will owe money at the completion of his or her college education, the education they were able to receive thanks to the loan should enable them to earn more in the workforce.

Buying a car for the purpose of getting to work would also be considered a good debt.

Another form of good debt is a home mortgage. The house will

last longer than the debt and thanks to maturation should increase in value over the course of the loan, meaning the home will be worth more at the end of the loan than it was at the beginning.

Good debt, however, can be taken too far. Buying a \$50,000 car to travel to a \$20,000 a year job is an example of a good debt gone bad.

Similarly using loans to finance a house that is beyond your means can also turn a good debt into a bad one if you find you’re unable to keep up with the loan payments.

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scholarships require the applicant to complete all paperwork and never require bank account or credit card information.

Legitimate scholarship services provide scholarship information for free but do not determine which students are awarded scholarships. Guaranteed approval of a scholarship is a likely indicator of a scam.

Other RED FLAGS include scholarships or representatives that...

- Request credit card numbers or bank account information
- Claim that a company can offer “exclusive” information
- Promise to give you cash if you pay an up-front registration fee
- Offer a lower interest rate if you pay a fee in advance
- Claim the company will

convert a loan into a grant for a fee

Other Back-To-School Scams:

Identity Theft: Students should be especially hesitant to hand out personal information like social security numbers, credit card numbers and copies of birth certificates, even if requested by a sports’ team, doctor’s office or school organization. Organizations should explain the information’s purpose and use.

Modeling and Talent Pitches: Don’t be fooled. Illegitimate agencies promise fame and fortune but require large fees for portfolios before skipping town with your money.

Cell Phone Plans: Beware of “no contract” or “no obligation” sale offers. If they seem too good to be true, they probably are.

These plans may contain hidden fees or fail to give you as much “bang for your buck.”

Credit Card Offers: Companies will attract you with low interest rates on a new credit card. These rates often skyrocket shortly after you sign the contract.

An Ounce of Prevention: What You Can Do

- Make sure the information is not FREE before paying.
- Do NOT respond to or initiate e-mails including personal identification information.
- USE a number other than your social security number on your driver’s license.
- KEEP your social security card separate from your purse or wallet.
- READ terms and conditions for phone and credit card plans, especially the fine print.

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mail, e-mail, and phone calls trying to persuade you to consolidate your debt with their company.

Your total student loan debt should not exceed what expect to net in the first year of employment after graduation.

How can you figure out how much your loans will cost when the interest rate is often variable? A safe bet is to assume a constant rate of 8%, which is twice the current rate for federal student loans right now, but these rates may go up. At 8%, each \$1,000 you borrow will cost you about \$12 a month to repay, assuming a 10-year loan.

If you're a student and you borrow the maximum allowed under current federal student loan programs – \$23,000 in subsidized and unsubsidized borrowing for undergraduates who are still their parents' dependents – your monthly payments will be around \$276.

Students should be aware of the expected starting salaries in their fields.

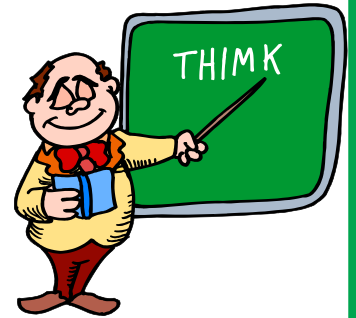
A \$276 monthly payment – assuming maximum loans – should be manageable if you're making at least \$33,000, which means you'd better be an accounting or business major. Starting salaries in those fields currently range from around \$36,000 for business administration types to \$43,000 for management information systems graduates.

Liberal arts grads, on the other hand, generally have to settle for salaries under \$30,000 to start. Beginning pay for psychology majors is about \$26,000, while

Some helpful alternatives to reduce or eliminate educational debt

If you find that you can't prudently borrow the money you need for school, there are alternatives that can ease the burden of higher education. Consider the following:

- Look for a college that wants you. The financial aid package will be much more attractive at a school that's trying to recruit you than at one where you're fighting to be accepted.
- Consider a lower-cost alternative, such as attending a two-year school and then transferring to a four-year institution. It's often a good way to cap costs. Be careful, though, to make sure the classes you're taking will transfer to the college from which you wish to graduate.
- Look into the fine public universities America has to offer. While many private colleges offer very friendly financial packages, and public universities seem to be going up daily, it is still worth doing a cost comparison.
- Get a job. Most students can help contribute at least some of their college costs. A part-time job during the school year, a full-time job in the summer or alternating a semester of work with a semester of study will all help defray education expenses.
- Consider living at home. While it's not the glamorous life students may have envisioned, living at home, especially the first few years of college, can be a great money saver for students. Free room and board make this an attractive option.



English majors are getting about \$28,000.

At those pay levels, you're better off borrowing no more than about \$18,000 over your college career.

For more information on what you should expect to make in your field, a good place to start is with any Internet search engine, typing in "starting salary" and then the field you're entering. The National Association of Colleges and Employers conducts annual surveys in many fields to keep tabs of what can be expected for average pay.

A note for parents

While you may feel compelled to help your college student, do not do so at your own expense.

Student loans are generally considered a "good debt" and have friendly payment schedules for the post-graduate student.

Parents, on the other hand, need to be focused on saving for retirement and other expenditures. Using money earmarked for these types of things to pay for tuition can harm your long-term financial stability. For once, let the kids pay for themselves.

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that are affecting their respective neighborhoods.

Guest speakers were brought in to discuss various topics. The event also allowed residents to come together and celebrate their community. Many organizers provided kids' games, face painting, refreshments, and other festivities to encourage participation.

The residents of Mt. Vernon Place Apartments in Anderson,

South Carolina, were just one of the communities sponsoring the event this year.

Melissa Towe, resident services coordinator, said this year she wanted to educate their residents about some of the less obvious crimes. For example, the Department of Consumer Affairs provided materials on current scams and identity theft crimes that Towe says her residents often face.

After Hours: Complaint Process to be held on Aug. 21


The South Carolina Department of Consumer Affairs will present a special session of "After Hours" on *The Complaint Process* on August 21.

"After Hours" is an after-business-hours program aimed to educate South Carolina consumers. After Hours is typically held every third Tuesday of the month and features free consumer education seminars.

This month's After Hours will focus on how to file a consumer complaint. Specialists will be on hand to walk you through the

complaint process from introduction to conclusion.

After Hours is held at the SCDCA office, 3600 Forest Drive, Columbia.



Money tips

If you can't afford to buy the house using a 30-year fixed-rate mortgage, you can't afford the house. Too many people today are facing foreclosure because they used an adjustable rate or interest-only loan to buy too much house.

Got Questions???

Ask Consumer Affairs with online chatting

Think you have been a victim of a scam or just need general information about fraud protection? Are you an athlete agent or pre-need burial provider in need of additional instructions about licensing? Or are you a business that has questions about the Buyer Beware list?

Then log on to *Ask Consumer Affairs*, an interactive forum that provides you with great consumer information.

Visit the South Carolina Department of Consumer Affairs website at sconsumer.gov and click on LIVE CHAT.



A communication specialist is there to assist you with any questions you may have Monday through Friday from 8:30 a.m. until 5:00 p.m.

"Late Nights" offers extended hours for more convenience



"Late Nights" allows consumers with especially busy schedules a few extra hours to reach Consumer Affairs.

Office hours are extended from 5:30 p.m. until 7:00 p.m. on the third Tuesday of every month.

The program is designed to give consumers the convenience of after-work hours.

Consumers are welcomed to stop by or call during the additional hours at 803.734.4200 or toll free in S.C. at 1.800.922.1594.

For more information about "Late Nights" please contact the Public Information Division at 803.734.4190.

S.C. Department of Consumer Affairs

Mission and Values Statement:

To protect consumers from inequities in the marketplace through advocacy, mediation, enforcement and education.

The Department strives to be a **CREDIT** to our State by holding the following values as essential in our relationships and decision-making:

- Competence **R**espect **E**quality
- D**edication **I**ntegrity **T**imeliness

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About the South Carolina Department of Consumer Affairs: Established by the Consumer Protection Code in 1974, the South Carolina Department of Consumer Affairs represents the interest of South Carolina consumers. Our mission is to protect consumers from inequities in the marketplace through advocacy, mediation, enforcement, and education. For more information on the SCDCA, visit www.sconsumer.gov.