



# Managing Debt

**Presented by: Matthew Christman**

Visit our workshops page for the worksheet, presentation handout and quiz.

## Financial Aid

- Financial Aid Home
  - Costs
  - Apply for Financial Aid
  - Types of Aid
  - Check Your Status
  - Stay Eligible
  - Financial Aid Forms
  - Receiving Your Aid and Paying Your Bill
  - Helpful Links
  - Workshops

### Contact Us

**Only remote services are currently available.**

#### Email Us Here

Or send us an email at [finaid@redwoods.edu](mailto:finaid@redwoods.edu)

For form submission please use the [eForms](#) platform to submit forms to the financial aid office.

#### HOURS:

**Eureka**  
Student Services Building

QUESTIONS? ASK WOODLEY

## Financial Aid Office Workshops

### Drop in Sessions

Please click on the title of the drop in session to learn more about what the drop in session is for, when and how to access the drop in.

[Virtual Welcome Center Drop In - Spring 2021](#)

### Spring 2021 Workshops

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[Financial Aid 101 - Recorded](#)

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<https://www.redwoods.edu/financialaid/Financial-Aid-Home/Workshops>

# Our Agenda

- Discuss common types of Debt
- Learn how to track debt
- How to Calculate you Debt to Income Ratio
- Discuss different tactics for paying down debt

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# Different Types of Debt

From our  
Credit  
Workshop

## Two Types of Credit...

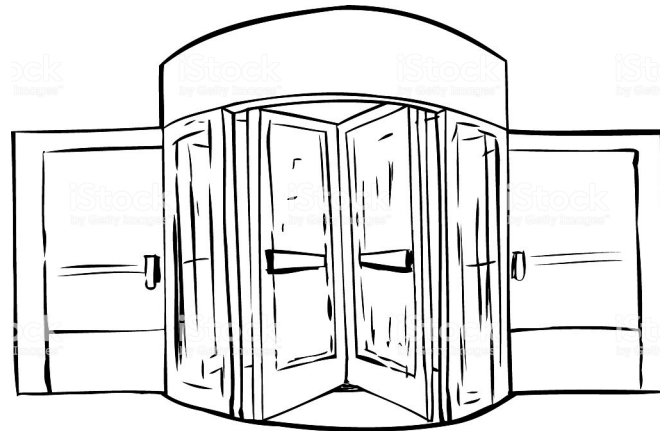
### Revolving

Limit is set by Lender or Creditor

Can continuously use credit as long as you don't exceed the total amount limit.

Examples:

- Credit Card
- Store Card
- Secured Credit Card



### Installment

Credit is issued for a specific amount and purpose

Amount is paid on regularly scheduled payments until paid off.

Examples:

- Auto Loan
- Student Loan
- Mortgages



# Common Types of Debt

## REVOLVING DEBT

- Credit Cards (Visa, Mastercard, Discover, and Amex)
- Store Cards (Target Redcard, Kohls Charge Card, etc...)
- Secured Card

## INSTALLMENT DEBT

- Auto Loan
- Mortgage
- Payday Loan
- Student Loan

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# Tracking Debt

First section of the Worksheet

## Managing Debt Worksheet

Indicate your  
monthly gross  
income  
*(before taxes)*

### Indicate Your Current Monthly Income

- Monthly Gross Income Resources before Taxes: \$ 1,000,000.00

### Track Your Current Debt

Type	Amount Owed	Interest Rate	Monthly Payment
Example [Credit Card]	\$ 3,000.00	24.99	\$ 50.00
<b>Total</b>	<b>\$ 3,000.00</b>		<b>\$ 50.00</b>





Example

## Managing Debt Worksheet

### Indicate Your Current Monthly Income

- Monthly Gross Income Resources before Taxes: \$ 2,200.00

### Track Your Current Debt

<i>Type</i>	<i>Amount Owed</i>	<i>Interest Rate</i>	<i>Monthly Payment</i>
Wells Fargo Credit Card	\$ 3,000.00	19.50	\$ 69.00
Federal student loans	\$ 19,867.00	4.00	\$ 112.00
Auto Car Loan	\$ 23,000.00	7.00	\$ 406.00
Target Redcard	\$ 600.00	24.99	\$ 29.00
Discover Student Loans	\$ 7,000.00	11.00	\$ 86.00
Google Store Card	\$ 200.00	0.00	\$ 30.00
<b>Total</b>	<b>\$ 53,667.00</b>		<b>\$ 732.00</b>



From our  
Credit  
Workshop

# Average Credit Card Interest Rates

Creditcards.com, Oct. 2020

	Average APR
National Average	15.97% <i>(Decreased since 2019)</i>
Low Interest rate	12.77% <i>(Decreased since 2019)</i>
Retail store interest rate	25.9% <i>(Decreased since 2019)</i>
Balance transfer rate	13.85% <i>(Decreased since 2019)</i>
Poor credit rate	24.43% <i>(Decreased since 2019)</i>
Student rate	16.12% <i>(Decreased since 2019)</i>

April's retail card (Target Red Card)	Jimmy's Major Credit Card
Credit Card Balance: \$1000	Credit Card Balance: \$1000
Interest Rate: 23.23%	Interest Rate: 16.41%
How long to pay off: 72 months	How long to pay off: 56 months
Interest fees = \$821	Interest Fees = \$466

# US Average Loan Rates

- **Mortgages:**
  - 30 year fixed: 3.99% (3.13-7.84)
  - 15 year fixed: 3.52% (2.5-8.50)
  - 5/1 ARM: 3.76% (2.38-7.75)
- **Auto Loans**
  - 5.27% on 60 month loans (3-10)
- **Personal Loans**
  - 10%-28%
- **Private Student Loans**
  - 5.8% (3.34-14.99)
- **Business Loans**
  - 3%-7%

**Sources:**

<https://www.valuepenguin.com/average-small-business-loan-interest-rates>

<https://www.nerdwallet.com/article/loans/student-loans/student-loan-interest-rates>

<https://www.valuepenguin.com/personal-loans/average-personal-loan-interest-rates>

<https://www.valuepenguin.com/auto-loans/average-auto-loan-interest-rates>

<https://www.valuepenguin.com/mortgages/average-mortgage-rates>

# Analyzing Debt

## QUESTIONS TO ASK YOURSELF

- Are my interest rates comparable to the average?
- Are my monthly payments manageable?
- Is my total debt too high?

## BASIC STRATEGIES - *[REVOLVING DEBT]*

- Interest too high? Contact your lender and request a lower interest rate if your Credit Score is good and your payments have been on time.
- Always pay more than the minimum payment, even if it's a \$1 more.

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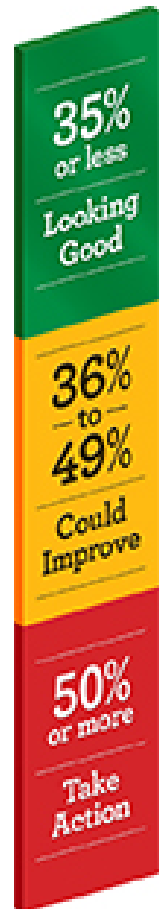
Debt to Income Ratio

## What is the Debt to Income Ratio Used For

- The debt-to-income (DTI) ratio is the percentage of your gross monthly income that goes to paying your monthly debt payments.
- Lenders use the debt-to-income ratio as a way to measure your ability to manage the payments you make each month and repay the money you have borrowed.
- Lenders calculate your DTI to determine the risk associated with you taking on an additional payment. A low debt-to-income ratio reflects a good balance between your income and debt.
- Helps a consumer understand how much of their income goes to debt.

## Our standards for Debt-to-Income (DTI) ratio

Once you've calculated your DTI ratio, you'll want to understand how lenders review it when they're considering your application. Take a look at the guidelines we use:



### **35% or less: Looking Good - Relative to your income, your debt is at a manageable level.**

You most likely have money left over for saving or spending after you've paid your bills. Lenders generally view a lower DTI as favorable.

### **36% to 49%: Opportunity to improve.**

You're managing your debt adequately, but you may want to consider lowering your DTI. This could put you in a better position to handle unforeseen expenses. If you're looking to borrow, keep in mind that lenders may ask for additional eligibility criteria.

### **50% or more: Take Action - You may have limited funds to save or spend.**

With more than half your income going toward debt payments, you may not have much money left to save, spend, or handle unforeseen expenses. With this DTI ratio, lenders may limit your borrowing options.

**WELLS FARGO**



# Example

## Debt to Income Ratio Calculation:

- Debt to Income Ratio: 33.27% %

## Debt to Income Ratio Results:

- 35% or less = **Good**
- 36% - 49% = **Improvement Needed**
- 50% or more = **Action is needed, borrowing is limited.**

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# How to improve your Debt to Income Ratio

Strategies to manage debt

# Improving Interest Rates

- Request a new lower interest rate for revolving and installment credit.
  - Research other lenders and their offers, present the lower offer to your current lender.
  - Especially if you have good credit and on time payment history.
- Refinance high interest loans
  - Research other lenders who may offer the ability to refinance your loans at a lower interest rate.
  - Pay attention to the terms and length of the new refinance loan.

# Options for Federal Student Loans

- **Consolidate Multiple Loans into a Federal Consolidated Loan**
  - Pay attention to your interest rates and whether a consolidation will save you money. Use a Loan Consolidation Calculator or speak to your loan servicer.
- **Refinance the Student Loans with a Private Firm**
  - **NOT RECOMMENDED**
    - Student will lose Federal Benefits including deferment, forbearance and multiple repayment plan options.
  - This is an option for students who have federal student loans that may have a high interest rate due to default.
  - This option only benefits a very small group of people and you will want to consult with a financial counselor before pursuing.

# Using New Lines of Credit

- **Credit Card Balance Transfer Opportunities**
  - You may be able to do a transfer balance between credit cards at a lower interest rate. Check with your lenders regarding the Balance Transfer options and rates
- **Personal Loan**
  - Personal loans can help pay off high debt such as credit cards for half the interest!
  - Be careful, personal loans involve fixed monthly payments and a short loan period.
- **Using Promotional 0% APR for Specific Purposes**
  - Rather than charging an item to your credit card, there may be 0% APR financing options that will save you money.

# Strategies

## TARGETING HIGH INTEREST RATES

- A popular strategy is focusing excess payments on your debt with the highest interest rates first.
- Paying down debt quicker with high interest rates compared to debt with lower interest rates, will save you money in the long run.

## TARGETING HIGHEST DEBT FIRST

- Often referred to the “Debt Avalanche Method”
- Target your highest debt first and once paid off, go to the next highest debt.

# Strategies

## TARGETING SMALLEST DEBT FIRST

- Often referred to as the “Debt Snowball Method”
- Focus on paying off your smallest debt first and then move on to the next smallest debt.

## IMPROVE CREDIT HISTORY

- This strategy involves hyper focusing on increasing ones credit worthiness so they can utilize credit based tools to manage debt
  - Target credit utilizations over 30% - reduce high credit utilization debt
  - Make more then the minimum payment
  - Target higher interest debts
  - Once credit score has improved, request lower interest rates or borrow at a lower rate.

Take Our Feedback Survey/Quiz

<https://forms.gle/1hQshAq8HtEf4qsg9>



SCAN ME



# Explore More Workshops

<https://www.redwoods.edu/financialaid/Financial-Aid-Home/Workshops>

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# Questions

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Call: 707-476-4182



Online

Live Chat/Drop-In

Matthew Christman

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**I Can Help With:** Financial Aid, Student Loans, Loan Counseling, Default and Financial Literacy.

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MEETING

Booking Instructions: <https://www.redwoods.edu/Portals/59/CraniumCafeLoginConexedCard.pdf>

Booking Link: <https://redwoods.craniumcafe.com/matthewchristman>



Thank You

## Sources

- <https://www.wellsfargo.com/goals-credit/smarter-credit/credit-101/debt-to-income-ratio/understanding-dti/>
- <https://www.wellsfargo.com/goals-credit/smarter-credit/manage-your-debt/tips-for-managing-debt/>
- <https://www.thebalance.com/how-to-manage-your-debt-960856>
- <https://www.consumer.ftc.gov/articles/0150-coping-debt>