

Student Debt: How to Avoid it, How to Manage it



Debt Guides

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Student debt is a necessary evil for many UK students today. As the cost of education continues to increase, so do the loan balances that college students are faced with after graduation. According to a report in The Guardian last year, student loans could total £23,000 or more at graduation for many students beginning their studies now. That's a dramatic amount of money to have to pay back, particularly in light of the current economic times that are making it difficult for many graduates to find a decent job.

To help students face their years of higher education responsibly, or assist those who have already accumulated a significant amount of student debt, we have compiled this guide to answer your questions about how to avoid and manage student debt in the UK.

The Cost of Education

Before embarking on a discussion of how to finance a college education without going into debt, let's talk about just how much a university costs today. To accurately determine the bottom line, you must include estimates for tuition, books, accommodations and living expenses. The breakdown of college expenses may look something like this:

- Tuition Fees (from Universities UK, 07-08 year): £8,600 per year
- Accommodations (from ukstudentlife.com): £3,750 per year
- Living Costs (from ukstudentlife.com): £5,250 per year

Books and other supplies should also be factored into the cost of education, but the annual price will vary greatly based on what you specifically need and where you purchase them. Some student report that textbooks run as high as £1,000 per year, while others save significantly by purchasing used or discounted books whenever possible.

The cost of living can also fluctuate tremendously for individual students. One of the biggest factors that impact the cost of living for college students is the area in which they live. For example, living outside of London or in the southeastern parts of England will be much cheaper than living in the heart of the London. The cost may fluctuate as much as £3,000 or more each year based on these variables.

Estimated expenses also vary based on the food you purchase, how often you go out with friends, and "extras" you purchase like cigarettes or clothing. The range for living expenses can also vary greatly by as much as £1,000 or more.

It is important to be realistic when estimating the college costs to formulate the best budget for your needs. Once you are in school, you can adjust particular categories, if they are more expensive than you anticipated.

There is no doubt that the cost of higher education is pricey, and it continues to rise. It is no wonder that many UK students are graduating with a significant amount of right out of school. However, there are ways to minimize the debt you must incur, particularly if you plan ahead and set a financial strategy

before entering the college of your choice. The next section of this guide will explain the alternatives to student loans that can be explored to help you pay college expenses without raising your debt ratio.

Options in Student Financing

Student loans should be a last resort when it comes to financing a college education. Before you fill out a single loan application, exhaust all other potential avenues. These options might include:

Student Grants

There are still maintenance grants available to some UK students, and it would be wise to see if you qualify before exploring other financial aid options.

Grants basically constitute free money, which is provided by the British government to help individuals pay for a college education they might not be able to afford otherwise. Most grants are based on financial need, but other factors might come into play with special support grants, including:

- Child-Care Grants – offered to students who incur childcare costs while in school
- Care-Leavers Grants – for students who leave care homes to take care of accommodation costs during summer vacations
- Parents Learning Allowance – for students with dependant children
- Lone Parents Grant – reserved for students who are also single parents
- Disable Students Allowances – offered to students with disabilities

To get more information about the types of grants that might be available to you, contact your Local Education Authority or LEA. The LEA is responsible for means tested help of all types, including grants and student loans.

Another potential source for information is the Education Grants Advisory Service. This independent agency primarily works with students that don't qualify for the grants listed above or other types of statutory funding.

Bursaries and Scholarships

Bursaries and scholarships also constitute funding that does not have to be repaid. However, the criteria for determining who is entitled to this money is different from those used for maintenance and special support grants. Instead of coming from the government, this money is allocated by the university or college. Some of the options include:

- ***Minimum Bursary*** – England-based colleges are required to offer a minimum bursary to students who qualify for full funding in a maintenance or special support grant. Many offer even more than the minimum to qualifying students.

- **NHS Bursary** – This type of bursary is available to students accepted into an NHS-funded degree or diploma course. Those who start school after 2007 are eligible for up to £3,392 for full-time school. Reduced rates are also available for part-time students.
- **Scholarships** – This funding can be awarded on a variety of criteria, including grades, subjects studied or the area you live in.

When you complete the general student finance application, you can check a box that allows Student Finance England to share your information with your university. This will help the school to determine whether you qualify for additional financing through a scholarship or bursary. If this is not an option, you can also apply for specific bursaries or scholarships directly through your university. To find a listing of scholarships available, check out the information at Scholarship Search. Some charities and trusts also offer financial aid to qualifying individuals.

To find other means of financial aid, check out the following:

- The Educational Grants Advisory Service (EGAS)
- The Educational Grants Directory
- The Grants Register
- The Directory of Grant Making Trusts
- The Charities Digest

It is important to exhaust all possible means of financial aid before checking into student loans. These programs provide money that does not have to be paid back, so you can earn your college degree without the worry over how you will pay mounting debt after graduation.

However, not every student will be eligible for these types of funding, and some will need to turn to student loans to see their dreams of higher education become a reality.

Types of Student Loans

Once you have explored all of your other payment options, you may come to the conclusion that a student loan will still be necessary to finance at least part of the cost of your college education. Student loans fall into three basic types:

- **Tuition Fee Loans** – These loans are specifically used to cover the cost of your tuition fees. According to Directgov, this type of loan will cover the full amount you are charged in tuition fees, which is up to £3,225 in 2009-2010 and £3,290 in 2010-2011.
- **Maintenance Loans** – These student loans are designed to help cover the living and accommodation costs college students typically incur. Students who are living away from home during the academic year can get as much as £4,950 for the year. The maximum limit is higher for those living in London and lower for students living with their parents.

- **Hardship Loans** – These loans are reserved for students who are facing exceptional hardship as a result of their living expenses while in school. Hardship loans originate through the university at either the university student welfare department or student support services. Only students that have already applied for a student loan are eligible to apply for a hardship loan as well.

The type of loan you apply for will be based on what you will be using the funding for and your financial situation. Tuition fee loans are not dependant on a household income level, meaning you do not have to show need to qualify for these loans. On the other hand, maintenance loans are 25% income-assessed and 75% non-income-assessed. Different rates apply, with income-assessed funding receiving a more favorable interest rate. Hardship loans are subject to means testing, and they are only available after other student loans have been applied for.

Applying for Student Loans

To apply for a student loan, or receive more information about the programs, students should contact their LEA. The LEA has the student finance application you must complete, which can also be accessed online. Although the student finance application is only used for student loans, you can check a box allowing the LEA to share your information with your university. This way, your school can also let you know if you qualify for additional funding based on the information provided.

It is best to apply for student loans as early as possible to ensure your first payment is ready and waiting at the beginning of your school terms. Students also must reapply each year, since funding may be based on the income level of your family and other potentially fluctuating factors. In many cases, you can apply for the current school year or following year within the same window. It is very important to specify on your application which academic year you are applying for, or your application process could be delayed.

Repaying Student Loans

The process of repayment begins after you graduate and begin earning at least £15,000 per year. Payment amounts are calculated on your income, so the more you make, the faster you pay off your student debt. While the minimum payment is 9% of what you earn in income, you can make additional payments to pay your balance down faster. Interest is accrued from the time the loan is paid out until it is paid in full.

Contrary to what many students think, it is possible to live debt-free in college. While you may not be able to avoid the occasional student loan to help cover the cost of tuition fees or living expenses, you do not have to rack up additional debt that will strap you financially after graduation. With these tips, you can make the most of the little college income you have – without sacrificing as much as you might think.

Set a Budget

The first step in getting through college without financial hindrances is to determine exactly how much money you need to live. A budget begins by calculating how much income you will have each month, including student loans, grants and other money you might generate. Subtract from that number your accommodation costs and living expenses.

To find a weekly amount, take your monthly totals, multiply by 12 (12 months in the year) and then divide by 52 (52 weeks in the year). This will be the number you use to track a weekly budget, which gives you a bit more control than a monthly budget will.

Consider a Part-Time Job

Some students can handle part-time employment while in school, while others find the demands of their coursework is simply too much to juggle with a job. If you decide a job is the right choice for you, there are many opportunities that offer flexible schedules to work around lecture and tutorial time. You may even be able to work additional hours during holidays to pick up extra cash for the next term.

The best place to begin the job hunt is through your campus boards or your school's careers office. The Recruitment and Employment Confederation's website may also have information about jobs available near your school. Look for a job that will teach you practical skills that will help you land a position in your chosen field after graduation. By the same token, if your college offers practical skills classes in subjects like computing or typing, you may find these courses to be helpful in securing a position while you are in school and afterward.

If you do decide a part-time job is the right solution for your college financing needs, make sure taxes don't eat up your earnings unnecessarily. If you believe you will be earning less than your tax-free personal allowance, ask your employer to complete a P38(S). This allows your wages to be paid in gross, without any taken out for taxes.

However, those who will be working year-round, during term and holidays, will not be eligible for the P38(S). In this case, your employer will either give you a P46, if you are a new employee, or a P45, if you have worked before.

It is also important to know your rights in terms of the minimum you should earn. For questions about minimum wage rates, contact the Department of Trade and Industry.

Learn to Save

Frugality may be one of the best lessons college students learn during their stint in higher education. You may be quite shocked at the cost of a box of laundry detergent or tube of toothpaste now that you are footing the bill on your own.

Learn how to be a savvy shopper by getting acquainted with the stores that offer the best prices and try to shop sales whenever you can. Buy textbooks used or at a discount and use up those supplies like pens and stationary completely before purchasing more. Thriftiness is yet another skill that will benefit you long after your college days are over.

2 Expenses you need and 2 you don't

When you are living on your own for the first time, it might be hard to know what you must spend money on and what you can go without. While some expenses are a good value for your dollar, others may sound like a good value on the surface, but end up becoming more trouble than they are worth. To help you weed out the essentials from the rest, we have two expenses you probably should not try to live without and two that may be wolves in sheep's clothing.

2 Musts for the College Student

- ***Insurance*** - Theft is an unfortunate reality of our society, and it can cause plenty of stress if it happens to you during the course of your studies. After all, it would be difficult for you to purchase a new bike or computer if you are already living on a tight budget. Insuring your valuables against theft and damage is a good way to protect your most important possessions. In addition, if you will be driving a car on campus, you will need to carry car insurance as well. There are insurance deals designed specifically for college students, so shop around to find the best value in terms of rates and coverage.
- ***Savings*** - It may seem nearly impossible to save for a rainy day during a time when you can barely scrape together the cash to eat a meal. However, some savvy budgeting and a bit of frugality can usually help even the most strapped students find a few pounds to put away each month. An instant access account offers the opportunity to put money away while still allowing you access to the funds in a pinch. Rates and terms vary from bank to bank, so compare accounts at a few different institutions before determining the best place for your money.

2 Debt-Producers to Avoid

- ***Overdraft Protection*** - There is nothing wrong with overdraft protection per se. In fact, it can come in really handy during a particularly tight month, allowing you to pay your obligations on time, without racking up significant overdraft charges. Many overdraft accounts are free to students, but that bargain won't last forever. Once you graduate, the interest will usually begin piling up. Maxing out the overdraft protection prior to graduation might mean more debt than you bargained for once you are out of school.

- **Student Credit Cards** - Credit cards might also seem like a good way to give yourself a safety net while you are in school. If an emergency arises, you will be ready to repair your auto or bicycle or cover other additional costs you weren't expecting. However, like overdraft protection, credit card debt can add up quickly. If you are disciplined enough to use the card sparingly and only in critical situations, it might prove helpful. However, most students do not have the discipline necessary to use a card responsibly, and they often end up with more debt after graduation than they can afford.

10 Debt Management Techniques

If you already find yourself with a significant amount of student debt, do not despair. We have debt management techniques to help you get out of debt as quickly as possible. While none of these tips will provide a quick fix to your budget woes, they have all been proven effective time and time again at helping individuals spend less and save more. When it comes to debt management, patience, persistence and perseverance are usually called upon.

Set a Budget

We discussed the creation of a budget before, but the significance of such an act can never be underestimated. Just like a budget can help you minimize your debt in college, it can also help you get out of debt more quickly once you graduate.

In order to draft a realistic budget, begin by tracking your expenses for a few weeks. Write down everything you spend, from that cup of tea to your latest music purchase. You might be surprised to discover exactly where your money is going, and how easy it is to curb your spending in certain areas.

Once you identify your spending habits, categorize them into a few key categories. Food, utilities, clothing and entertainment are some of the more common choices. Use enough categories that you have good control over your spending, but not so many that your budget becomes too complicated to be practical.

Set an amount for your category based on your current spending habits, taking into account the areas where you can cut back. Add a savings category, even if you are only putting in £5 each month. You will also need to factor in the monthly amount of your loan payments. The total amount of your expenses should match the amount of income you bring in each month. Stick with those numbers, and you will see your debt dwindle before your very eyes!

Get Rid of High-Interest Debt First

In most cases, high-interest credit card balances will trump your student loan payments when you have extra cash to spare. While you want to continue making minimum payments on your student loans, add any extra money to your credit card payments until those balances are paid in full. In some cases, you might save yourself as much as £50 each month by paying off that credit card first. You can then put

the amount of your credit card payments, plus the interest you are saving, toward your student loans to pay them off faster.

Save, Save, Save

We already mentioned the importance of adding a savings category to your budget. While experts generally recommend saving a minimum of 10% of your income each month, this is not always possible when you are fresh out of college and struggling to pay off student debt. As long as you are putting a constant amount in your savings every month, the balance will grow.

It is also important to shop around for the best savings account for your needs, based on the terms of the account and the interest rate it pays. When you have a savings balance, emergencies like car repairs are covered without the need for additional debt.

Learn the Perks

Student loans often have additional perks attached, such as an interest rate reduction for automatic payments. Ask your lender if there are any such perks for your student loans or other debt. You might find that you can save a bit each month with a lower interest rate or other such benefit. For a debt-laden student, every little bit helps a lot.

Know the Terms

By the same token, it is very important to read the fine print before signing on the bottom line of any debt agreement. You want to know your APR, which is the actual interest rate that is calculated on an annual basis. You also want to find out when the loan interest starts getting calculated, whether it is when the purchase is made or at the end of a set term. Know when your payments are scheduled to begin and what the amount will be each month.

By educating yourself thoroughly about the terms of your loan before signing the paperwork, you won't be faced with any nasty – and expensive – surprises later.

Avoid Late Charges

Nothing will eat away at your account balance like fees for late loan payments. Always pay your debts on time to avoid such a situation. In fact, pay a few days ahead of time when possible to allow for delays in the post or processing time. If you are paying bills online, make sure you keep track of when they are due, and don't wait until the last day to post your payment. You never know when your Internet connection will go down or you will forget about the payment in the middle of a hectic day. Give yourself a bit of leeway to cover any potential hindrances.

Keep Track of Accounts

Most banks allow you to monitor your accounts online today, which gives you little excuse for not carefully tracking balances and interest payments. This practice will ensure you never incur an overdraft charge because you will always know what your current balance might be. It will also let you

know if a check to the utilities doesn't come through right away, so you can follow up with the company to make sure the payment was received on time. Most people find that checking their account once or twice a week is all it takes to keep up on their financial matters.

Learn Self Restraint

Self restraint may not be the mantra of many college students, but once you graduate, it should be how you characterize your money management. Most retail operations bank on impulse buys from their customers, and they tailor much of their marketing to just such a practice. You can protect yourself from those unscrupulous retail schemes by refusing to buy a product the minute you see it on display.

Take a list along with you when you go shopping, and if you see something you want that is not on your list, wait at least 24 hours before going back to purchase it. In many cases, you may decide that the item wasn't so necessary after all. If you still want it the next day, and you have a plan for paying for the item, feel free to head back to the store and make your purchase.

Don't Tack on More Debt

If you leave school already in debt, the worst thing you can do is tack on more debt after graduation. The tips above, such as living on a budget and setting up a savings plan, should prevent the need for additional debt while you are in the process of paying off current obligations. If you are still using a credit card, make a monthly limit, such as £50 that you can easily pay off every month. Don't waiver from that limit, no matter how tempting it might be.

Know When You Need Professional Help

If you are in over your head with debt, there is help available. The first step, according to the UK Insolvency Helpline, is to formulate a debt plan. Ask yourself these questions:

- How much do I owe?
- How much do I earn?
- How much do I spend?
- Is there any left over?

Once you have answered these questions in writing, talk to your creditors about your situation and try to work out a payment plan with them. This usually works best if you address your debt problem sooner, rather than later, however. It also does not reduce the amount of your debt or your interest payments; instead, it simply spreads them out over a longer period of time.

If you are in too deep for this process to work to your advantage, you will need the help of a professional service to resolve your debt issues. One option at your disposal may be an IVA or debt management plan.

These programs are designed to relieve you of some of your obligations, so you can continue to pay down your debts at a more affordable rate. In many cases, the creditors will waive interest and late fees to collect as much of their outstanding balances as possible. Debt management plans are either

initialized by you or by a third party working as a liaison between you and your creditors. An IVA is completed through a licensed insolvency practitioner. While neither of these options can be applied to student loans, they can be used to pay off other types of obligations, like credit cards.

10 Ways to Save Money in College

A debt-free lifestyle often begins with the little things – a bit here and a bit there. To help you save money in college, we have come up with 10 ways to pinch your pounds so you can pay your bills each month:

- ***Sell your unwanted items*** - Thanks to the Internet, there are plenty of opportunities to sell items you no longer want or use. You might be able to make a nice additional income to pay for those incidentals you never seem to be able to afford otherwise.
- ***Shop for discounts*** - If you join the National Union of Students, you can find all types of student discounts, ranging from haircuts to movies. If you plan to travel abroad, you can also apply for an International Student Identity Card, which is recognized in over 100 countries. Even if you don't own a card, it is always worth asking whether an establishment offers discounts to students. You might be pleasantly surprised.
- ***Learn to cook*** - Convenience food adds up very quickly, while cooking at home saves you time and offers more traditional nutrition than most food purchased and eaten on the go. A single student cookbook won't cost much and will provide you with a wealth of menu options to enjoy from the privacy of your own accommodations.
- ***Buy used books*** - Sometimes it makes sense to purchase books new, such as when you want to keep a book in your major field of study indefinitely. However, most textbooks end up getting used for a term and then resold. Save yourself a bundle and look for used textbooks whenever possible.
- ***Buy other items used*** - Books aren't the only things you can find on the used market. Clothing, pots and pans, and music are also sold through charity markets at a fraction of the price you would pay for new. In addition to saving a small fortune on your purchases, you can rest in the satisfaction that you are helping out a good cause in your neighborhood.
- ***Avoid ATMs*** - There are few devices that can blow a hole in a budget like the convenience of an ATM. Not only do these machines make it much easier to take out more cash than you need, but the fees attached to transactions at £1.25 to £2.5 can add up quickly.
- ***Look for coupon codes*** - Discounts are great, but sometimes coupon codes are even better. Find coupon codes online easily by entering the store you want to shop in and the word "code" into the search engine.

- ***Don't smoke*** - It's a dirty habit, it's bad for your health and it can cost you a significant amount each month to keep up. Throw out the cigarettes, and both your lungs and your pocketbook will be sure to thank you.
- ***Look for Freebies*** – College communities are notorious for offering free events of all kinds to accommodate cash-strapped students. You might find free concerts, movies or lectures that will keep you entertained for an afternoon or evening without breaking the bank.
- ***Walk or ride*** - Transportation costs can add up quickly, so walk or bike to your destinations. If you must use public transportation, pick up a travel card that will offer discounts on every trip.

Saving money during college isn't always easy, but it isn't as hard as it looks either. With these tips, you will be able to stay out of debt and even sock a few pounds away each month to cover emergencies and help you begin your life after college on firm financial footing.

Further help and information

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Direct Gov

Website: www.direct.gov.uk

Student Finance

<http://www.direct.gov.uk/en/EducationAndLearning/UniversityAndHigherEducation/StudentFinance/index.htm>

Student UK

Website: <http://www.studentuk.com/>

Lifestyle

Website: <http://www.lifestyle.co.uk/education/students/index.htm>

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The Student Room

Website: <http://www.thestudentroom.co.uk/>

Remember: You can always contact us for advice about any problems you are experiencing in dealing with your debts.

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Website www.iva.net

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