

What Is Financial Literacy?

And why is it so important?

By Robert Pollage, Default Prevention Administrator

In these challenging economic times, with growing unemployment, it is more important than ever that students understand what financial literacy is and how planning now can assure their financial security in the future. In research conducted by the US Department of Education, financial reasons were the primary catalysts reported by students that left school before completion.

Financial literacy is the student's ability to make appropriate decisions in managing their personal finances. This is important as money is a huge part of life, and can determine what the student can do and where they can go. Learning now how to manage your money the right way is an important step in taking control of your life.

LOSFA is focused on educating students about their financial literacy and the options available to them through presentations and web-based tools. Our financial literacy team is available to present directly to student groups, and will also work with school staff to train on how to engage students face to face on becoming more financially literate. Topics covered include: Creating a Budget and Sticking to It; Credit Card Debt; Understanding Your Credit Report and Credit Score; Managing Debt; Identity Theft; and many others. Financial literacy information sheets are also available on our website, www.osfa.la.gov.

Understanding student loans, what they are, how to determine how much to borrow, and repayment options, are also part of a student's financial literacy. At LOSFA we are dedicated to assuring that a potential borrower understands that a student loan is a debt that must be repaid and all other options for financing their education should be exhausted before applying.

Financial calculators are an excellent tool for students and borrowers. Multiple calculators are available on our partner site, www.MappingYourFuture.org. The calculators available include: Budget – Helps to develop a saving and spending plan; Checkbook Balancing – Reconcile checking account records with bank records; Income-Based Repayment – Estimates monthly payment amount under the income-based repayment plan; Student Loan Debt – Useful tool to determine how much to borrow; Repayment – Esti-

mates student loan payment amount; and Loan Consolidation – Estimates consolidation loan interest rate and payment amount.

Making sure the student borrower understands what a grace period is and at what point repayment begins is also an important part of financial literacy. With six different repayment options to choose from, LOSFA can assist the borrowers with understanding the differences and help determine which is better suited for their situation.

LOSFA's Default Prevention Department is available to student borrowers for assistance in determining options available once a loan enters a repayment status and the financial consequences of not making the necessary arrangements and having the loan purchased in default. We can be reached via telephone at 1-(800)-256-3137 or via e-mail at accountspecialist@osfa.la.gov.

If the borrower finds it financially difficult or impossible to repay their student loan, Default Prevention will work with them to determine the best option for their situation. If the borrower qualifies for a deferment, forms are available on LOSFA's web site, www.osfa.la.gov, or can be mailed or e-mailed directly to the borrower. Default Prevention can also assist borrowers with completing deferment applications and submitting to their lender for timely processing. Forbearance may also be an option to borrowers that don't qualify for a deferment.

Numerous private companies are offering programs that make promises to borrowers of options to keep their loans out of default while saving them money. Many of these options will ultimately wind up costing borrowers additional unnecessary expenses such as handling fees or per loan charges. Understanding what their options are will assist borrowers in making financially sound decisions.

The financial consequences of defaulting on a student loan are severe which is why as financial aid professionals we must work together to keep our students and borrowers informed and financially literate.