Students & chads



The essential

Student guide to finance

REDUCE YOUR STUDENT DEBT BY UP TO £7000 A YEAR!



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# **Hello there!**

This book is probably the most useful thing you can have before going to university (so long as you go on to read it!). And I don't say that lightly.

When I headed off to university in Manchester, I was so excited to shed the confines of living with parents and make a new life for myself.



I didn't have much time or desire for fully understanding the key things surrounding student finance. It seemed like a chore just seeking out the various bits of information I needed. I wish I'd had a book like this so I could get to grips with the 'important' stuff all in one place. Like you, I wanted to get on with having a good time rather than spending it in endless queues trying to figure out why my student loan was late.

Going to university is an experience, one that is immensely fun and which allows for personal growth. Having entered the dream, you'll probably fall into a few of the common pitfalls like most students.

That's where this book comes in. It's partly an extension of the *Save the Student* website, but at the same time contains only the important stuff you *really* need to know.

I would really encourage you to spend some time flicking through these pages. Yes, some of the topics aren't always the most riveting but I guarantee that the nuggets of advice will save you plenty of The essential student guide to finance - Save the Student!

time and money in the coming years.

Get through this book and then get on with really enjoying some of the best years of your life!

#### Owen Burek

Founder of Save the Student



If you have any questions, feedback or just want to say 'hello', please don't hesitate to get in touch.

You can reach us on Twitter (<u>@savethestudent</u>), on our <u>Facebook Page</u> or by email <u>mail@savethestudent.org</u>





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# Who are we?



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A big thank you to all the other Save the Student contributors!

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# Why read this book?

You're off to university, a place positively drowning in books, so why read this one over any other?

This book is a little different from most; this book is all about *you* and the practical things which have the potential to impact on your whole life.

Read this book precisely because it has been written; written over hundreds of hours solely by students and graduates who realised that all of us deserve much better advice when it comes to student finance. Speaking from personal experience, we know there's a lot out there to deal with.

Every year a new batch of students follow the same cycle of confusion and many get caught out along the way.

Of course, 'mistakes' are quite a lot to do with what university is about.

But there is no reason why you cannot learn from others and get on with having an amazing time without too many money worries!



#### Is this book for me?

Are you a student? Then **YES**, you are in the right place! Whether you are a part-time, mature, international, disabled, state-schooled, home or three-headed student, this book holds nuggets of wisdom ready for you to unlock. Every student is different, but almost all go through the same process and often encounter similar difficulties.

This book is not just for tight-arses or for students on the 'bread-line'. Pretty much every student would say that they could do with a bit more cash, for whatever reason. The aim of this book is to share knowledge whilst developing a mindset which will enable you to better manage your finances for the *rest of your life*.

#### How to use this book

Students set to go to university should have a good read through every page. Once the fun begins keep it nearby (and out of spill zones) as a reference to help with any money issues that come up.

The book is set out into clear topics, broadly in chronological order to trace the path of the typical university student. There is no requirement to read from cover to cover, feel free to pick and choose chapters, sections or pages when needed.

Where appropriate, we've included tables, diagrams, random illustrations and the like to make things more visual. And, as with any piece of coursework, they really help to pad out the book.

If you're reading this on screen, you'll be able to open web links and use the clickable contents.

Lastly, we haven't written this to be a chore, so please don't see reading it as one! If anything, treat reading this book as a well paid job; spending a few hours of your time soaking up this book will pay you back. This comes back to the idea of having the right mindset.

What's to follow is from a student's perspective and, as much as possible, straight to the point. Just how we like it.

# Using the website

We will make frequent reference to the student money website **www.savethestudent.org**, which has informed and inspired the content of this book. Treat the site as an extension of this book: it is a living and breathing creature holding an incredibly rich resource of up-to-date money advice for students in the UK.

You'll also find a sizable bunch of the latest **student discounts** and offers, which would just be rude to ignore.

Keep in the loop via our weekly newsletter, Facebook page and Twitter.



**SECTION 1** 

# Thinking about Money

# The right mindset

# Students and money

Before getting into the thick of it, we need to get a good grip on this thing called 'money'. The way we see and value it hugely influences the decisions we make every day.

The relationship between students and money is unique; there are very few times in your life when you are loaned money which you don't have to repay for years, if ever. Essentially, it's not your money at all, making it all the easier to spend!

# **Responsibility and money**

Some students don't feel as if they really need to worry about money. This can set them up on shaky ground as they quietly get accustomed to having money without a great deal of responsibility.

Ignoring for now the fact that at some point down the road most students will have to repay the money loaned during university, the real issue is the misguided perception that money comes easy in life.

Once you graduate the whole picture changes and money (even borrowed) definitely does not come as easy. And beyond that things

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get even more complicated with mortgages, taxes, pensions and, who knows, maybe even kids!

Money really should be valued for what it is, not what it can turn into. It is amazing how a bit of paper with the Queen's portrait or a swipe of a plastic card can magically turn into dozens of bottles of vodka.

But once it's spent, it is spent and you'll soon be looking for your next financial injection.



Whenever spending a significant amount of money, put that number against something else you might spend it on to get a clear idea of the value of that money. For instance, spending £50 on a fancy dress outfit worn just once could cover your travel costs for an entire month.

# But you don't have to be skint!

The common perception that all students live on the bread-line can easily become a self-fulfilling prophecy. You could even argue that some students are committed to quickly shedding the responsibility that comes with having money. As soon as it's in the bank, it's spent.

We need to break this stereotype to reconfigure the mindset of students who often settle to live in squalor. If students aren't expected to have much money, then what's the problem? The problem is one which develops in later life when money comes with even greater responsibility.

It's important to have the right mindset when it comes to money (or 'personal finance').

We're not going to pretend that it's the most riveting of topics, but unfortunately money is a necessity in our society and if misunderstood it can have serious long-term consequences.



For some unknown reason they still don't teach this stuff in schools - a little bit crazy when we see how, from a young age, we are increasingly educated into a culture of debt. This is no more evident than with the increasing cost of attending university in this country. We hope we can go some way in compensating here. Despite the challenges, students don't have to be skint!

This section will introduce you to the fine art of budgeting before considering the cost of actually going to university.

# **Budgeting your life**

# A tale of two species

Having flown the nest of bottomless fridges, 'living on a budget' is a lifestyle almost every new student must face sooner or later. But there are two clear sub-species of student you'll quickly spot.

For the sensible few, budgeting comes first as they separate their student loan into neat weekly chunks as soon as it graces their bank account. For many others, budgeting comes out of necessity during a state of crisis after blowing a quarter of an instalment in one amazing weekend leaving a 'challenging' £10 a week budget.

Either way, knowing how to budget is a vital part of student life. And so this is where we begin.

The amount of moolah you'll need in your budget per week will differ from person to person, depending on things including:

- » Personal habits
- » Hobbies
- » The town or city you live in
- » Distance travelled
- » Social life



# Subject to change



Your budget is also likely to be affected by events in certain months, such as Christmas, birthdays, summer festivals and other special occasions which involve spending money. It's worth setting aside enough money ahead of time in anticipation of such events.

On the other hand, you might have more money coming in at certain times, such as your own birthday. So when coming up with your budget, it should be seen as a flexible plan rather than something concrete.

Life is all about variety and the unknown, and it should be kept that way as much as possible throughout university, within reason!

# Income vs. Expenditure

Spend a minute to think about the things you spend your money on every week. There will be a huge variety of outgoings (expenditure), of all different amounts to all sorts of people and organisations.

Meanwhile, your main income streams can probably be counted on one hand: student loan, parents, part-time job.

So it's important to get a good understanding of where your money is going, and that's the biggest part of budgeting.

#### Your bank as a leaking bucket

Take the analogy of a bucket holding water. The bucket is your bank account, with a tap which is opened every now and then topping it up with water, being your income.

Unfortunately your bucket has a number of different sized holes leaking your money.

The water level will always be changing, but so long as there's always enough water in the bucket at any one time, there's no problem.

However if the water level gets too low, then the leaks will have to be plugged before the bucket runs dry. And no one wants a dry bucket.

Budgeting is all about managing the leaks in the bucket to keep the water level consistently topped up. This way, you can keep spending money on the things you need or enjoy without having to resort to a yo-yo existence.

# Using a budget sheet

The best way to get a clear picture of your finances is to put a working budget together by breaking everything down with figures on a sheet. And that's exactly what you'll find below.

Fill out the two tables below to quickly calculate a monthly budget. We have put the national averages in brackets as a guideline. Some may not apply to you.



EXPENSES	AMOUNT PER MONTH (avg)
Rent	(£365)
Electricity / Gas	(£50)
Water	(£8)
Internet & home phone	(£12)
Mobile phone	(£24)
Insurance (contents, phone etc)	(£12)
Food & essentials	(£105)
Books & stationery	(£23)
Travel	(£44)
Clothes	(£24)
Socialising	(£64)
Anything else	
TOTAL SPENDING:	

INCOME	AMOUNT PER MONTH
Student maintenance loan	(£458)
Parents' allowance	
Part-time job	
Savings interest	
Anything else	
TOTAL INCOME:	

	AMOUNT PER MONTH
Total Income	
minus Total Spending	
equals a MONTHLY BUDGET of:	



To download our working budgeting spreadsheet for Excel, just **click here** (it's free).

#### The Direct Debit trick

This is a really simple yet effective way to budget once you've worked out how much you think you'll need each week. The idea revolves around the psychology that you will only spend what you can easily access.

#### Step 1

When you receive your student loan (or any other income stream) into your student bank account, transfer it into a separate current account (free to setup).

#### Step 2

Setup a recurring payment (such as a Direct Debit or standing order) each week for your budget amount between your two bank accounts. This is easy to do with Internet banking, and it will gradually feed the money you need into your normal spending account.

#### Step 3

If you ever need more cash one week, you can of course transfer it manually but at least you will be thinking about whether you really need it first!

This is a trick which helps to break the bad habit of spending above your means. It also gives the welcome impression of a payday once a week!



# Asking parents for money

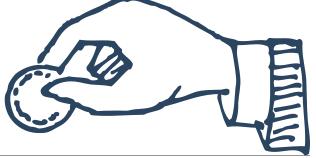
Most students will have to go to their family at some point to help support them during university. In fact, this is an expectation of the government and the reason why your maintenance loan may be dependent on your parents' income.

Turning to your parents for money is not always an easy thing to do, but there's nothing wrong with asking if you really need to. Just remember to be sensitive when approaching the subject. They want to support you and may find it difficult to say "no", so don't abuse their goodwill.

Be aware that your parents may need the money as much as you do, especially if you have siblings, and they will have lots of other financial commitments. Similarly, be sensitive to the time of year you're approaching them. The run up to Christmas might not be the best time!

Remember there are systems in place to support students from lower income backgrounds. See the section on Student Funding for

all the details.



#### **SECTION 2**

# The Cost of University

#### It's not getting any cheaper!

Not so long ago, a university education was free.

That all changed in 1998 (under Labour) with the introduction of tuition fees across the UK, allowing universities to charge up to £1,000 a year.



Since then fees have slowly crept up. From 2012 new full-time undergraduate students are faced with fees of up to £9,000 per year. In 2011, tuition fees stood at a maximum of £3,465 a year.

Before we dive into the detail and what this means for you, it's important to remember that tuition fees are not the only cost of going to university. From day one you will be spending money on books, stationery, course equipment, travel, food, going out, shopping, rent and bills. Use our Budget Sheet in the previous section to help increase your control over spending.

For both tuition fees and living costs, all students are entitled to a student loan. You should not be put off applying for university based on cost alone. As well as the student loan, there is plenty of funding available for students who feel that the cost is prohibitive to them attending university (see Section 4).

# The new fees system

#### In a nutshell:

There is a whole bunch of noise surrounding the latest tuition fees system, creating lots of confusion and misguided information for students.

We know of some bright school leavers who have put off applying for university on the back of common myths. So let's break it down - with the facts - so you can make a well informed life decision:

- 1. The maximum universities can charge for **tuition fees** in 2016 is **£9,000**. That's almost a three-fold increase on 2011.
- 2. Full-time English students can apply for a **maintenance loan** of **£8,200** (more for London) which covers basic living costs.
- 3. Students do not pay a penny until they graduate and earn £21,000 pa. Repayments are then 9% of anything above this.
- 4. The average university graduate will be saddled with a student debt of £48,000.
- 5. After **30 years** any outstanding student debt is written off.
- 6. **Interest** is charged at the rate of **inflation +3% pa** whilst you are at university, which continues at **0-3% pa** thereafter (depending on your salary).

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- 7. Your student loan repayments are automatically deducted from your paycheck by your employer.
- 8. Funding and support is available for a good proportion of students, but especially those from lower income families.

Many of these changes now affect part-time students, however they cannot apply for a maintenance loan

There are differences between the new system in England, Wales, Scotland and N. Ireland (see below).



Whilst the real cost of university education for many is tripling, **some students will also be better off** under the new system (**use our calculator** to find out more)!

#### Differences across the UK

Use the table below to see how much university can charge, depending on your nationality and where you plan to study.

Nationality	England	Scotland	Wales	N. Ireland
English	up to £9k	up to £9k	up to £9k	up to £9k
Scottish	up to £9k	FREE	up to £9k	up to £9k
Welsh*	up to £9k	up to £9k	up to £9k	up to £9k
N. Irish	up to £9k	up to £9k	up to £9k	up to £3,805
EU	up to £9k	FREE	up to £9k	up to £3,805

Source: UCAS

\* Welsh students are eligible for fee grants, which effectively cap tuition costs at £3,810 wherever they study (the Welsh Government pays the rest).

Other international student tuition fees will not be affected by the changes.

These figures are based on current knowledge and may be subject to change.

# **Cutting the cost**

#### Look at lower fees

If you are looking to reduce the cost of your degree, then you may want to consider further education colleges and some of the smaller universities. As we move towards a more market-based education system, these institutions typically have lower fees to attract more students.

For example, some colleges are advertising degree courses for around £5,500 a year. The Open University is also an increasingly popular choice, offering flexible and remote learning, which lowers the cost of teaching and therefore tuition fees.

# Stay put

Living at home is a huge saving, if you can stand your parents (and vice-versa?) for another couple of years! For many students, flying the nest is often a big part of the appeal of university.

This one comes down to personal preference, but remember you are entitled to a student loan to cover many of the living costs.

#### Leave the country

With the fees up at home, studying abroad has become more feasible and competitive.

This option won't necessarily reduce the cost of your degree, but can go a long way in satisfying the travel bug if you have it, therefore saving you money. Whilst we'll miss you, it's worth thinking about!

There are plenty of other ways to cut the costs and debt associated with university, many of which we will cover in this book. We firmly believe that, if possible, you should always choose the right university and course for you, looking beyond the price tag. Remember, students don't have to pay for their university education up-front and there is funding available.



For more on the new tuition fees system, and what it means for you, read our <u>Big Fat Guide to Student</u> Finance.

#### **Useful links:**

- » The Big Fat Guide to Student Finance
- » Student debt calculator
- » List of universities with maximum fees (UK)

#### **SECTION 3**

# Applying for Student Finance

#### What is student finance?

Student finance is simply the way that you fund your university education. The vast majority of us take up the offer of a student loan from the government. You may also be eligible for grants and other funding (see Section 4).

The whole process can be pretty confusing! There's lots of jargon, over-complicated applications and mysterious repayment clauses.

Most of the confusion, unfortunately, comes from popular misconceptions, with media spins and embellished rumours amongst friends.

Who to believe? Well, hopefully we'll clear everything up for you here based on the facts. You will then be in the best position to manage your future finances and avoid any surprises.

# What you should know

There are two main types of student finance, which all British students are entitled to apply for via the government backed Student Loans Company (SLC).

Some students can also apply for additional support funding from a variety of sources. We'll cover these after we've got to grips with the two types of student loans.

#### **Tuition fee loan**

This money goes towards paying your university fees, usually in full. You won't actually have any contact with this loan, as it bypasses your own bank account being paid directly to your university finance office on your behalf. Simple enough!



£9,000 - The maximum a university can now charge for a year of full-time undergraduate tuition. To warrant this figure, universities must provide adequate justification and offer financial support to students from poorer backgrounds.

#### Maintenance loan

The purpose of this loan is to help cover your basic living and academic costs whilst at university, such as rent, food, transport and books. To apply for a maintenance loan you must be a full-time student. The amount you receive depends on where you are studying, entry year, household income and any additional grants.

For each year of study you can expect three instalments paid directly into your bank account.



**£8,200** - The maximum annual maintenance loan for English students (except students living in London).

If you are studying in Wales, N. Ireland or Scotland <u>click</u> **here** for an explanation of what you can receive.

# How much can I apply for?

Place of study	Loan Amount (pa)
Home	£6,904
Away from home outside London	£8,200
Away from home in London	£10,702
Studying overseas	£9,391

#### Means vs. non-means tested

In simple terms, means tested is an assessment of your available income. From 2016, 45% of your maintenance loan is *non*-means tested with the remaining 55% affected by your household or personal income (means tested). Your tuition fee loan is not income assessed in this way.

# When should I apply?

Students have to apply for student finance **every year** of study and before the deadline. These differ depending on where you're from.

**English & Welsh:** May for new students, June for current students.

N. Irish: April for new students, June for current students.

Scottish: Fnd of June.

Missing this date is likely to lead to delays in receiving your first instalment in September, which can make for a tricky Fresher's week. So getting your application in early is the first thing to get right!



Check the site for the for the deadline dates this year.

# Application walk-through

Full-time English students can now apply online via the government's student finance website. Part-time students currently need to request paper application forms from the website.

Upon completing the application form you may also need to send in a few documents referring to your household income to support your claim.

The process is mostly self-explanatory once you start, but here is a step-by-step guide for you:

# Apply in 8 steps

- Go to the Student Finance website
   (https://www.gov.uk/apply-online-for-student-finance)
- 2. Register using your personal details, create a password and setup the security questions
- 3. You will be given a unique Customer Reference Number (CRN). Make a note of this along with your login details as you will need these
- 4. Follow through each page of the application. If you need to come back to it, remember to save your progress!



Much of the information about your chosen course and university is the same as you submitted for your UCAS application, and conveniently you can import some of this here. Remember to use your first choice university for these questions as where you study can influence your entitlement.

- 5. Enter your passport number to verify your identity. Doing this means you don't need to send your passport in
- 6. Check your application for any mistakes and then submit the final page
- 7. You are able to make changes and check on the progress of your application at any time by using your CRN and login details
- 8. If you have any queries or problems, contact Student Finance on 0300 100 0607 or via the website.



## **SECTION 4**

# Applying for Student Funding

## Can I get funding?

There is a lot of support out there for students who are in financial difficulty or need to supplement their student finances to attend university. This money comes from a wide variety of sources, from government grants to scholarships and corporate sponsorship.

Even if you think that you wouldn't be eligible for these alternative types of funding, have a look and apply where you can because this is essentially money that you don't have to pay back! Having said that, if you are lucky enough to receive funding then make sure you put it to good use.

Every year, millions of pounds of funding is available to UK students but a big chunk goes unclaimed. When I realised I was entitled to £381 a year during uni, it was too late. My housemate had taken the time to apply for funding and was rewarded with a couple of crisp cheques "- Jake

Be aware that the application process for some of the scholarships and bursaries available can be painstakingly long. But you should think of it this way: if someone is willing to fund your university career, then they will want to make sure that you are the right person for it.

Lots of students are eligible for some additional funding so it's worth spending a bit of time finding and then applying for it. There are 4 main types of student funding: **grants**, **bursaries**, **scholarships and sponsorship**.

## Student grants

A grant is a non-repayable sum of money provided by the government or sometimes a charitable organisation. Below are the main grants available to students.

## Maintenance grant

**No longer available for new 2016 starters.** Up to *two-thirds* of pre-2016 students are also eligible for some level of maintenance grant from the government. This grant is means-tested as it's meant for students who require financial support. From 2012, all students with a household income of **below £42,620** per annum are eligible for a grant. The amount can be as much as **£3,387** per annum if your total household income is below £25,000.

#### How much am I entitled to?

Maximum Household income	Grant amount (pa)
£25,000	£3,387
£30,000	£2,441
£35,000	£1,494
£40,000	£547
£42,000	£50
£42,620	£0



For every £1 you receive as a maintenance grant, your maintenance loan will be reduced by 50p. The exception is the *Special Support Grant*, which does not affect your loan but is only available for households with the lowest income.

## Disabled students grant

If you have a registered disability then you are likely to be eligible for extra funding to support you whilst at university. This grant covers a wide range of disabilities, including: physical, mental health and dyslexia.

What you receive in funding and other support can depend on the institution as well as your particular disability. Contact your university's student support office for information.

I have dyslexia and when I applied to university I received a desktop computer, a £200 grant, free paper and printer ink, course books, software and invaluable support with writing coursework, all from a non-repayable disability grant - Alex, UWE graduate

## **Teaching grant**

This specific type of funding is available to anyone taking a teaching course, whether part-time or during a full-time PGCE. The amount you are eligible for is different for each student and institution.

## **Charitable grants**

It can also be worthwhile looking into charitable trusts. There are hundreds of them in the UK which offer their own grants for supporting students from lower income backgrounds.



## Student bursaries

A bursary is similar to a grant, but is an amount of money provided by universities and colleges (in England) to students with financial difficulties.

Any student who pays tuition fees and also receives the full maintenance grant is eligible for a bursary which can be as much as £1,000 per year.

The main bursaries are covered below.

## NHS Bursary

This bursary is only available to students studying social work, medicine, dentistry, nursing or healthcare. Students can get anything up to £1,000 as a grant plus an additional £5,460 bursary.

## **Scholarships**

A scholarship is similar to a bursary, however it is typically awarded to students who excel in a certain field in sports or academia. Again, scholarships are non-repayable and are provided by universities and some charities.

## **Sponsorship**

In some cases a private company will part-sponsor a student through university. It's really up to you to discover and persuade a company to sponsor your education. The reward is that you'll end up working for them upon graduating.



## **Useful links:**

- » StudentCashPoint.co.uk
- » Directgov Student Finance
- » Grants search on Family Action
- » Grants search on Turn2us.org.uk
- » Scholarship-search.org.uk
- » Scholarship search on Education UK



# Payback time!

## What do I owe?

At some point after graduating you will start repaying your student loan. Whilst this may be some way off, it's worth thinking about now. The loan comprises both the tuition fee loan and maintenance loan provided by the Student Loans Company (SLC) during your university years. Unlike the student loan, most other student funding available (see previous section) comes with very few, if any, strings attached.

Graduates are expected to leave university with an average student debt of £43,500. That's quite a frightening number, but it's really important to know that you only have to start repaying your student loan once certain conditions are met. We'll get to these below.

## When do I have to repay my loan?

There is no one time when you are required to repay your student loan in full. Most British students only have to start repaying their student loan once earning over £21,000 a year (previously £15,000).

Even then, your repayments are barely noticeable. You have to repay 9% of anything above the £21,000 threshold on your outstanding loan. This amount is automatically deducted from your pay cheque every month, depending on your actual salary. The more you earn, the bigger the chunks you repay.



Use our <u>student loan repayment calculator</u> to see how much you will have to pay back.

This is a pretty fair system because you only have to repay what you can afford, and it is independent of your total student debt.

For example, two students on the same salary but who had tuition fees of £9,000 pa and £7,000 pa respectively, will repay the same amount in monthly instalments. The only difference is that the student with higher fees will take more time overall to clear the total student debt.

Most graduates hit the £21,000 threshold within a few years of graduating (find your expected salary). However, hypothetically speaking, if you don't exceed a £21,000 annual salary for 30 years you will *never* have to repay your student loan. Any remaining student debt after this time is written off.

## Typical loan repayments for various salaries:

Annual salary	Annual repayments	Monthly repayment
< £21,000	£0	£0
£23,000	£180	£15
£25,000	£360	£30
£30,000	£810	£67.50
£40,000	£1,170	£142.50
£50,000	£2,610	£217.50
£60,000	£3,510	£292.50

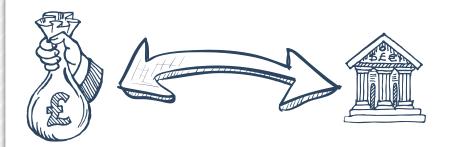
## When *should* I repay my loan?

Good question. The quick answer is really the same as above: only when you have to, which is typically in small instalments deducted automatically from your income once over £21,000 a year.

You can, of course, choose to pay it back earlier, and you may have good reason to. However don't be afraid of having 'student debt'.

The reason why you shouldn't go out of your way to pay it off on your own goodwill is simply because, at around 3% pa, it's by far (even under the new system) the cheapest form of borrowing money (unless it's from the good old *Bank of Mum and Dad*).

For lots of us, there's a good chance we'll need to take out a commercial loan or mortgage soon after graduating. These are much more expensive forms of borrowing than a student loan. If you have spent your savings on repaying your student loan early, and then need to take another loan, you're likely to be worse off overall.



## 3 things to watch out for!

## 1. Interest is charged on top of inflation

Under the previous student finance system, 'interest' on loan repayments was set at the current rate of inflation (using the RPI at one point in the year). In theory, there was no interest as your wage is broadly expected to increase at the same rate.

Unfortunately with the new system introduced from 2012, interest *will* be charged on top of inflation.

This will affect most new students in two ways:

Whilst at university: An extra 3% in interest is added to the rate of inflation (RPI), which changes slightly each year. This applies until the April following your graduation.

**After graduating:** If you earn under £21,000 pa then your interest rate will be set at 0%, not accounting for inflation (as with the old system). For every additional £1,000 you earn, you will be charged an extra 0.15% pa in interest on your student loan. Graduates who earn in excess of £41,000 will incur the maximum 3% interest rate.



Under the new system, graduates earning over £21,000 will pay £540 less towards their student loan each year.

## 2. You pay tax on your initial salary

Even though student loan repayments are deducted from your pay cheque, income tax is calculated and paid based on your actual salary amount. In other words, income tax and student loan repayments are calculated from the same original figure.

## 3. Repayment conditions can change at any time

Some economists have noted that the British government is able to make changes to the student loan repayment conditions at any time, even if you have already graduated. There is nothing in the agreement you make with the Student Loans Company (SLC) which guarantees the 9% repayment rate or indeed the salary threshold.

Whilst there's not much you can do about this if the terms did change, it's worth knowing about in case you consider long term plans based on current figures.



**SECTION 6** 

# Student Banking

## What to do with money

Hopefully you've now got a really good grasp on how the whole student finance process works which, whilst being a little drab, is really important. From here on in, we're going to get much more into the practical side of things, starting with what the heck to do with the money you do have available.

All students need a bank account to enable the unrivalled joy of receiving their student loan instalment. You're likely to already have a current account, but being a student can bring a number of perks when it comes to banking.

We'll start by taking a look at some of the key features of student bank accounts and how to choose the right one for you. Things change slightly when you graduate, and so we'll also be touching on the subject of graduate bank accounts.

Then we'll confront the thorny issue of credit cards and how (for some students) they can be worth having whilst at university. Controversial, we know, but lots of important lessons all the same.

Finally we'll move on to choosing and using savings accounts as a student. "But", I hear you cry, "don't you need lots of surplus money to save? Because I don't!". Many students are resigned to thinking that there's no point in saving whilst at university, but there will be times when you are able to save and we'll show you how you can easily maximise the money you do have.

## Student bank accounts

Students are a banker's dream. If they manage to sign you up as a customer with them at this age, then there's a high chance of you staying with them for life (yours or theirs!).



Banks also know that students are likely to take up the offer of having an overdraft to fill in the inevitable financial void. Once you understand

that the banks really, really want you, then you soon realise that you have the power to make a life choice for yourself.

There are a number of incentives that the banks will use to lure you in. This is when you've got to get financially savvy and look at the bigger picture. Choosing the right student account can really help you out during your university years.

Every year we review and compare the best student bank accounts on the website - <u>find out which banks came top this year</u>.

Our comparison takes into account a number of different factors which should always be considered when choosing an account. We'll get right into the details below.

It's worth noting that, for some students, branch location, internet banking and the level of customer service are also important considerations (though we'd suggest these should not necessarily be deciding factors).

## How much is the freebie worth?

Forget what the bait is! Give any freebies a cash value to make it easy to compare with the other benefits on offer. Whilst a mug with an inbuilt USB memory stick might be useful (in fact, that is genius), it's not going to be worth that much and if you really want it, then you're probably better off buying it yourself. What you really want to look at is...

## What overdraft is available?

Ok, so this should be the most important factor to consider when choosing a student bank account.

Why? Simply because the unique thing about these accounts is that you can borrow money for the length of your degree with no interest (0%), so long as it is an arranged overdraft.



**WARNING:** Never go over your agreed overdraft limit or you'll be greeted with hefty bank charges.

Of course you've got to be careful here because you will have to repay it all soon after graduating to avoid high interest rates. This is where the banks recoup their investment in students, so budget accordingly and only spend of it what you really need. Overdrafts should be treated as a safety net, and definitely not as 'free money'!

## 4 key questions to consider:

- 1. Which banks offer the largest advertised overdrafts?
- 2. Is the overdraft amount guaranteed?
- 3. How is the overdraft tiered over the years? (You're unlikely to get the maximum until your final year)
- 4. When will you have to pay it back?

A common question we get from students is how the banks go about deciding on what level overdraft you can get. There are a number of factors, including your age, where you live and your financial history (they will consult your credit rating, which you can **check for free here**).



There's a lot more on choosing a student bank account, including our top picks for this year, on the website.

## **Banking after graduation**

Yes, graduation might be a long way off yet, but when it comes to managing your finances properly it's well worth thinking ahead.

After all, for many students this is when reality bites back and suddenly you're getting letters from your bank demanding repayments with a threat of sky-high interest charges.

Interest-free overdrafts are great as a student, but only so long as you use them responsibly and to your advantage.

Thankfully, most high street banks will give you the option to reduce your student overdraft in stages over a period of a year (can be as much as 3 years) after graduating. Banks sometimes call this a graduate bank account. Make sure you find out this information when applying for a student bank account.

As a graduate, it can be worth switching your account to another bank who can offer you better terms with a graduate account than your current bank. Usually you don't have to have had a student account with them to switch, but there's no guarantee you'll be accepted so don't rely too heavily on this.

"I had a Halifax student account at uni because it had the biggest overdraft. After I graduated I shifted my remaining overdraft to a Natwest graduate account because they gave me longer to pay it all back." - Danielle

# **Student Credit Cards**

## Using plastic to your advantage

Most students don't have a credit card, and often with good reason. Being in the belly of a recession, we are constantly warned of the dangers of borrowing money in this way.



But there are some real benefits to having a credit card even at university. Some banks actually offer 'student credit cards' as a distinct product.

The absolute key point is that you *must* have real discipline and be smart in the way you use it. Student credit cards typically come with high interest rates (around 24% APR), so you have to be careful. But, if you are sensible, you can easily avoid being in long-term debt and actually boost your finances.



Remember! **Credit cards are not for everyone**. Before we explain the benefits of having one, do not consider applying for a credit card if you:

- » Are poor at managing your money
- » Want to use a credit card as an extra source of income
- » Plan to use it to get out of any existing debt

## 5 benefits of having a credit card

## 1. Improve your credit rating

Most students don't have a high credit rating or score (check yours for free), which is fine whilst at university. However when it comes to applying for loans and mortgages in the future, your credit rating plays a big part.

Having a credit card can help build up your credit rating so long as you never make a late payment. Your credit rating improves even when you don't use it, so if you don't trust yourself with it, simply apply for one and cut it up!

### 2. Internet payment protection

Using a credit card for any purchase over £100 online protects you not only from fraud, but can also enforce a refund from your card supplier if a product or service is inadequate (under section 75 of the Consumer Credit Act, 1974). Debit cards do not offer this guarantee.

## 3. Emergency short-term funds

This should not be a reason for applying for a credit card, but can be a benefit nonetheless. Most credit cards give you at least 56 days without charge (0%) on new purchases. So long as you have income to repay the total amount within this period then you can benefit from this time lag.



Avoid missing payments and fees. Set up a monthly Direct Debit from your current account to pay off your credit card balance automatically.

### 4. Build good habits

Having a credit card as a student can improve your spending habits and wider management of your personal finances. Again, this comes down to having some discipline which is developed through practice.

#### 5. Rewards

Certain credit cards may offer you other benefits, such as cashback on purchases or Airmiles. These should be approached with caution but can be a nice perk so long as you're never late on payments.

## Watch out for the catches!

We can't emphasise enough the importance of having a credit card for the right reasons (to *improve* your finances) and using it responsibly.

Lots of people do get into spiralling debt. Often this is because the temptation to spend accessible money will always be there, but there are also a few tricks banks employ to catch you out. Let's be realistic, they're not lending you their money without profit in mind!

There are a few clauses you should be aware of when signing a credit card agreement. Failing to meet them can be very costly.

### 1. Interest rate charges

If you fail to repay any money borrowed on a credit card after the interest-free period, you will start to incur charges in the form of interest on the remaining balance. Interest rates for most student credit cards tend to be around 18-27% APR (but check your agreement).

### 2. Late payment fees

At the very least, you will have to make a minimum payment each month as detailed on your statement. If you fail to make this you will be charged a late payment fee. In any case, you should always pay off the full balance to avoid interest charges. If you ever incur a fee on your credit card, cut it up immediately.

#### 3. Cash withdrawals

Never take out money from an ATM with a credit card because you will be charged for it. Only use it online or with a Chip and PIN machine. Use your cash or debit card exclusively when drawing cash.



For more information on credit cards, see our <u>Ultimate</u> <u>Guide to Student Credit Cards</u>.

# Savings accounts

Ok, so 'students' and 'savings' are not two words you often hear together. However, pretty much every student will (or should) have a few quid spare every now and then.

Most students will receive three student maintenance loan instalments each year, and many will have an interest-free overdraft at their disposal. Effectively, you can make more money from some of this borrowed money using savings accounts.

Granted there are also times when money is scarce, but that's all the more reason to maximise it when you do have it. With inflation being high, putting any spare money into a savings account can help counteract the devaluation.

## Choosing a savings account

When it comes to savings, there are lots of different options and products, depending on your needs. For students, easy access is likely to be one of the biggest considerations.

Luckily there are plenty of savings accounts which fit the bill and can be easily hooked up with current accounts using Internet banking.

Just remember that the easier your



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money is to access, the less interest you will receive on any money in the savings account. If you're comfortable with locking some of your money away for a year or more, you can benefit from a higher return.



Tax of 20% is automatically deducted on interest from savings. Most students are exempt (if below the income tax threshold) but you must tell your bank!

## Types of savings accounts

There are three basic types of savings accounts to consider here: instant or easy access, regular or fixed and tax-free cash ISAs.

#### **Instant or Easy Access savings accounts**

This should be the first choice for most students. Whilst the interest you earn won't amount to much (around 2%), crucially you can withdraw money at any time without any penalties (such as losing any previous interest earnt). Each account is different, so make sure you understand any restrictions before stashing your money away.

## Regular or Fixed savings accounts

Fixed savings accounts offer savers a higher interest rate than easy access accounts (around 4%), but you need to be comfortable with leaving the money locked away for at least 12 months. Generally speaking, the higher the interest rate, the greater the restrictions

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and conditions.

For example, on some high-interest savings accounts you must deposit a minimum sum of money every month to receive interest payments for the whole year. If you don't, or withdraw money against the terms, then you will forgo any interest.

#### Cash ISAs

A cash ISA is very similar to a regular savings account, and comes with varying interest rates and conditions. The big key difference, however, is that any interest you earn is completely **tax free**.

For this reason, even though most students can avoid tax on other savings accounts (see above), an ISA is usually a better idea in the long run.

Taking advantage of your yearly allowance means that you can protect your (hopefully growing) savings from the taxman once you graduate and start earning.



## **SECTION 7**

# Dealing with Debt

## What is 'debt'?

For most new students, getting into university means getting into debt. Full-time students don't have the savings or time to fund their education at the point of use. This requires borrowing a large sum of money, much of it off the government as well as banks.

Whilst there's absolutely nothing wrong with this, lots of students are put off applying for university because of an anxiety about debt.

Debt is scary, but it's also an integral part of today's society. Companies take loans to grow, people take on mortgages to buy houses and students take out loans to invest in their own education.

There are lots of different ways to borrow money and to pay it back. Student loans are quite unique because, unlike any other kind of commercial loan, they are designed to be affordable for everyone.

Yes, most students graduate university with a large amount of debt, but the repayment terms are entirely manageable, even without any income (see Section 2).

There are a lot of myths, stigmas and misconceptions surrounding student debt. It's important that they are all addressed to avoid the wrong choices being made when it comes to funding your education.

Having said that, debt can be really harmful. It's important to make this distinction, that is, between **good** and **bad debt**.

## **Good debt**

When it comes to student loans, you know that you only have to start repaying the *Student Loans Company* when you reach a decent salary.

From 2012 students effectively have 30 years to repay it after graduating before it's written off. You can consider this to be 'good debt', because it's manageable and affordable.

As with other borrowing, you will still have to pay some interest on your student loan. However, as the interest rate is relatively low and linked to inflation, a student loan is by far the cheapest form of borrowing.

More importantly, you only have to pay back what you are able to afford. Your repayments are intrinsically linked to your income: the more you earn the more you repay.

Unlike commercial borrowing, your credit rating is unaffected by your student loan.

## **Bad debt**

Most people who get into 'bad' debt have borrowed money without much thought about how they will repay it over a certain period.

Before borrowing money from anyone, you must have a clear plan

to repay the loan within a certain timeframe.

Credit cards and bank loans are prime sources of bad debt since the repayments are lumbered with high commercial interest rates and strict conditions.

Most students will have an interest-free overdraft with their bank account, and some may even have a credit card. These are both fine (good debt) so long as the money borrowed is used responsibly. This requires a certain personality and discipline.

'Good' debt can quickly turn bad and get progressively worse if you don't have a plan to pay back the money in the short-term.



Do not even touch a credit card if you cannot afford the money you are borrowing!

Students typically have little income making full repayments on commercial borrowing difficult. If you don't repay these debts, you will soon find yourself in a position where you are paying interest on the interest you originally owed.

This is called **compound interest**. Compound interest is the truest sign of bad debt and paying off subsequent interest can prove to be extremely difficult.

Once you get into bad debt, your credit rating will take a blow making future borrowing more difficult and even more expensive.

For independent and free advice on personal debt problems, call the National Debtline on **0808 808 4000**.

**SECTION 8** 

# 50 Money Saving Ideas

There are hundreds of ways you can save money as a student. Below we've listed 50 of the best, many of which may never have occured to you.

By following these quick tips you could save as much as £3,500 a year.

- 1. Join <u>Freecycle</u> Get free second-hand items including furniture, TVs, bikes and more. <u>Preloved</u> is also full of bargains.
- 2. Never watch *live* TV Use online catchup players which don't require you to pay the licence fee!
- 3. Check if you need contents insurance <u>read our guide</u>. Check your parents' house insurance or add yourself to theirs which is often cheaper than a new policy.
- 4. Use cash on nights out Leave your card at home and just take the money you can afford to spend.
- 5. Don't buy books Use the library! <u>Google Scholar</u> is also great to use and free. If you do buy, go second-hand via <u>Amazon</u>.
- 6. Use cashback sites Whenever making purchases online, go through a cashback site like **Quidco** to get money off.
- 7. Ask for discounts If you don't ask you don't get. Always ask whether shops offer a student discount, if not ask for one anyway! Check out our **Student Discounts directory**.
- 8. Book travel in advance Get super <u>cheap train</u> and <u>coach</u> <u>tickets</u> by booking ahead of time.

- 9. Wait before buying On big ticket items, wait a day or so before parting with your cash to avoid spontaneous spending.
- 10. Buy food in bulk Buying a bag of 10 chicken breasts is a lot cheaper than buying 2. The freezer is your friend!
- 11. Use your legs Could you walk or cycle to uni? Ask yourself if you really need to get the bus to save £100's each year.
- 12. Hair cuts at the SU Most student unions have a trainee hairdressers located within that will charge just a snip!
- 13. Packed lunches A big money saver for days on campus, just requires a little preparation. *Power Rangers* lunchbox optional.
- 14. Say "no" to the kebab Kebabs, pizzas and chips may feel like heaven after a night out but the cost adds up. Munch on some toast or crisps at home instead.
- 15. Don't pay for a gym The world is your gym and the pavement is your treadmill! **See our alternative ideas**.
- 16. Get Amazon Prime For a few quid a month watch unlimited films online! **Start a free trial here**.
- 17. Draft up a budget Takes some discipline, but pays off big time. Weekly is best, but every month will also help. See section 1 of this book.
- 18. Haggle! You can haggle not just for money off but for added extras, for instance a case with a new laptop.

- 19. Kick the habit Whether it's smoking or shopping, break costly habits to benefit your wallet and health. **See how**.
- 20. Don't food shop when hungry Write a list of things that you need and don't buy anything else. If you are hungry then you'll end up buying everything you see!
- 21. Resist your impulse Try to avoid buying items such as clothes and gadgets on impulse. If you really need something, shop around.
- 22. Become a Masterchef Ok, so you don't have to be a foodie expert but the more meals you learn to cook, the more money you will save and the more creative you'll become.
- 23. Cook in bulk If you live in shared accommodation, share meals too and save on both money and time.
- 24. Don't eat out, stay in Keep fancy restaurants and take aways for special occasions (that doesn't mean weekends!).
- 25. Do you need it? Always ask yourself this question! For example, do you need a car at uni? If the answer isn't "definitely, yes" then you can do without it.
- 26. Compare everything Whether it's your food shop (use <u>mysupermarket.co.uk</u>), insurance or broadband providers (use <u>gocompare.com</u>), make sure you're getting the best price.
- 27. Young Persons Railcard Save a third on rail travel. Easy saving if you plan to travel more than 5 times a year.

- 28. Pre-drinking Now we don't condone irresponsible drinking but if it's a pricey bar, then laying the foundations at home can help your budget.
- 29. Save a penny, spend a pound Grannies around the country love this saying, and so do we. Save up coppers in a jar and you'll be surprised at how quickly it adds up.
- 30. Use <u>Skype</u> Chat with friends and family via Skype for free. Even better for international students.
- 31. Don't buy condoms Be safe, of course, but you can get your hands on free johnnys from your local family planning clinic or the Welfare office at your SU.
- 32. Use Open Office You don't need to pay for expensive office software. <u>Use these free open source alternatives</u>.
- 33. Freeze your credit card Yes, put it in a cup of water in the freezer. This means you have to wait for it to thaw before spending, giving you time to properly consider your purchase!
- 34. Turn it off! Leaving lights on and electronics on standby is a waste of money. Also watch out for dripping taps.
- 35. BYOB Bring your own drinks when possible and appropriate. Take instant coffee to the library and use free hot water instead. Some restaurants allow students to bring their own alcohol (especially curry houses).
- 36. Plan ahead Easier said than done but if you can, then do. It's always cheaper to buy ahead or in bulk. For instance,

investing in a yearly bus pass will save you a lot of money.

- 37. Cut mobile bills Shop around for the best mobile deals (<u>use</u> <u>this tool</u>).Bear in mind SIM-only deals can be much cheaper if you're happy with your current handset.
- 38. Save on flights Big savings to be had depending on destination and time of travel. **See our Cheap Flights guide**.
- 39. Try the supermarket downshift Buy own-brands instead of pricey household names. There's often little difference.
- 40. Beat the touts Ticket touts love to prey on students who leave things until the last minute and sell tickets at well over the odds outside the venue. But if you have to, wait until the event has started and prices will drop.
- 41. Resist trends A tricky one, but remember trends come and go. Don't get sucked into spending big money on things which are likely to fall out of fashion within a year.
- 42. Buy gifts in the sales Just like everyone else, Christmas is a real drain on student finances. Buy presents early on, in seasonal sales if possible.
- 43. Make your own presents Get creative and reap the rewards. Whilst saving money it also gives the personal touch.
- 44. 'Borrow' condiments Take a tidy stash of sauce sachets when at the pub. We know you do it anyway!
- 45. Don't pay for dentists Find your local NHS dentists and ask

them about free healthcare whilst in education.

- 46. Avoid premium rate numbers Use the great <u>SayNoTo0870</u> website to find alternative numbers, sometimes free!
- 47. Go vintage, darling Past fashions are all the rage at university. Everyone loves to look unique, and the secret to looking cool is... charity shops!
- 48. Voucher Apps An essential tool for any money saver, especially when eating out.
- 49. Cut the bottom off your toothpaste Strangely, this was one of the first tips on *Save the Student!*. You'll be surprised how much gets stuck in the tube!
- 50. <u>Subscribe to Save the Student!</u> Every day we hunt down the best student deals out there and share them with you.



# Thank you!



I hope you've found this book to be useful, and on behalf of everyone involved with *Save the Student*, I'd like to thank you for your support.

We spent several months putting this guide together and we did so because every day we hear from students who are confused about student finance, especially with all the recent changes.

The website <u>www.savethestudent.org</u> has lots more and is updated daily. Make sure you're on our <u>Mailing List</u> to keep in the loop and get our handpicked weekly student deals!

All the best for your new life adventure at university!

## Owen Burek

If you would like to share this book with others, please do so by directing them to <a href="www.savethestudent.org/books/student-finance">www.savethestudent.org/books/student-finance</a>. Please don't email it yourself.

The essential student guide to finance - Save the Student!

## We'd love to hear from you!

Facebook: www.facebook.com/savethestudent

Twitter: @savethestudent

Email: mail@savethestudent.org

# Jargon Buster

#### **APR**

Abbreviation of "Annual Percentage Rate", often used for interest rates on credit cards and loans.

### **Budget**

Whilst also being another word for "cheap" or "economy", a budget is an estimate of income and expenditure for a certain period of time. The difference gives you a good idea of how much money you have left to spend. See our budget sheet.

### **Bursary**

A type of educational scholarship given to a select number of students to help with the cost of university. Also see grants and scholarship.

#### Current account

The basic type of bank account which most people have to manage their everyday spending. A student bank account is a special kind of current account.

### **Credit rating**

Also known as a credit score. They are an estimate of the ability for someone to fulfill their financial commitments based on their past transactions or borrowing. They are used by banks to assess the

level of risk of lending money to individuals. Credit ratings are kept by credit report agencies, you can access your own report on a free trial with **Credit Expert**.

#### Debt

Being in debt essentially means you owe money to a third party. There are different types of debt. Whilst debt can be bad (eg. credit card interest) other forms of debt which are well managed can be of benefit. Your student loan can be seen as 'good' debt because repayments are affordable for everyone.

#### **Direct Debit**

An instruction given to your bank which allows a third party (such as a broadband provider) to directly debit or withdraw a set amount of money from your bank account on repeat occassions (eg. every month).

#### **Finance**

A fancy word for money, but technically speaking it refers to the management of money.

#### Grant

A set amount of money given by an organisation for a specific purpose. In education terms, grants are offered by public bodies and charities to financially support some students.

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#### Inflation

A fall in the purchasing power of money coupled with a general rise in prices. Student loans are linked to an annual inflation rate to adjust for inflation, meaning that numerically the loan gets bigger each year but in theory the value of the loan is the same.

#### Interest

An interest rate is a percentage of money which is paid by a borrower to a lender as payment for the money borrowed.

#### **ISA**

Abbreviation of "Individual Savings Accounts". The unique and special thing about cash ISAs as savings accounts is that they are tax-free. Interest earned through normal savings accounts is subject to a 20% tax rate. Everyone has an annual allowance of how much money they can put into an ISA, and you can only have one at a time.

#### Maintenance loan

The loan offered to all students to support the cost of living and studying at university. Usually combined with a tuition fee loan, the loan is repaid in small amounts once earning above a certain salary.

#### Means-tested

A way of assessing your available income, taking into consideration your parents' or household income. Means-testing is partly used for maintenance loans and some student funding.

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#### **Overdraft**

An arranged overdraft is an amount of money which a bank agrees to loan to you via your existing bank account. Once your bank balance becomes negative, you are into your overdraft. Going over any agreed overdraft comes with big penalties so check your bank balance frequently.

#### PA

Abbreviation of "Per Annum", meaning each year. You'll often see this in the context of interest rates.

#### **RPI**

Abbreviation of "Retail Price Index". It is a common measure and signifier of the current inflation rate.

#### **Scholarship**

A type of student funding. Similar to a bursary, however scholarships are usually awarded to students who excel in a certain field in sports or academia. They are non-repayable and provided by universities and some charities.

#### **SLC**

Abbreviation of "Student Loans Company". The SLC are a public body tasked with providing student loans and grants for the government.

#### **Student Loan**

A sum of money provided by the SLC which is designed to support

students through university. The loan usually comprises of a tuition fee loan and a maintenance loan for general living costs.

#### **UCAS**

Abbreviation of "Universities & Colleges Admissions Service". A charitable organisation responsible for managing applications for almost all degree courses in the UK.

In response to the changes to our university education system, the team of students and graduates at Save the Student! have written *The Essential Student Guide to Finance*.

The 80-page eBook provides the 540,000 new students heading off to university this year with all the important financial information and advice that they need in one publication.

Topics include budgeting, student finance and funding, student banking, understanding debt and lots of money saving tips and tricks.

The writers are confident that the information in this book can reduce the debt of some students by as much as £7,000 a year.

The Essential Student Guide to Finance is available to students for free download exclusively from www.savethestudent.org.

