

## Office for Financial Success – Financial Tip of the Week

A service of the Personal Financial Planning Department  
College of Human Environmental Sciences  
University of Missouri-Columbia

*(The OFS Tip of the Week is available in PDF format at:  
<http://financialsuccess.missouri.edu/tipoftheweek/FinanciallyFit.pdf>)*

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I've included information regarding student loan consolidation every week for the past 6 months because it was apparent then that doing it was the smartest thing for those with federal student loans. This will be the last tip that talks about it [unless there are legislative changes that affect you], because today is the last opportunity to consolidate your loans at the 4.75% rate. Tomorrow, the rate will rise nearly 2% (to 6 5/8<sup>th</sup>%) and consolidation won't be an option until you graduate. **It's not too late – you have until midnight** to call [if you're in school and using the Dept of Ed]; most companies will also use the date your application is postmarked or submitted online, so your procrastination may not cost you, but it will if you put it off until tomorrow. (**LAST DAY TO CONSOLIDATE STUDENT LOANS AT 4.75% RATE**) ...

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### **WEEKLY TIP FACE LIFT**

The weekly tip subscription membership is getting too big [a good problem] for the list-serve at the University we've used for the past year; so we'll be exploring different options (i.e., different list-serve [likely cost prohibitive], or something like a blog ...). I'll let you know as we evolve the financial tip to better serve you how that will occur, etc., as we transition into a new phase technologically. Please be patient in the process as there are likely to be some glitches (receiving multiple messages, etc.) – if for some reason you are accidentally removed, you can always resubscribe at the OFS homepage (<http://financialsuccess.missouri.edu>).

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### **GET FINANCIALLY FIT ...**

Most professional organizations are created as a way for professionals to network and learn more about current trends, build skills, and enhance specialized areas of their "craft." Some organizations also have a large 'educational' component. One organization in particular, ACCI (The American Council on Consumer Interests) - <http://www.consumerinterests.org>, recently made available some helpful informational materials I wanted to share.

The publications provide information about critical areas of personal finance such as: impact and costs of credit, avoiding identity theft, minimizing debt, tracking your spending, and the importance/value of beginning to save early. The materials are designed to offer information on those topics in various levels, with the goal of becoming "Financially Fit" – begin at stage one and progress through stage three -

(1) The warm-up; (2) The work-out; & (3) The big weigh in ...

1. <http://www.consumerinterests.org/files/public/Warm-Up.pdf>
2. <http://www.consumerinterests.org/files/public/Work-Out.pdf>
3. <http://www.consumerinterests.org/files/public/Weigh-In.pdf>

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### **MIZZOU Personal Finance Course Offerings – fall term ...**

The Personal Financial Planning Department will again offer the 1-credit Financial Survival course this coming fall term!

Financial Survival (FINPLN 1183, ref# 44250); W 3:00 - 3:50 (1 credit).  
Personal & Family Finance (FINPLN 2183); T/TH 11 – 12:15 or T/TH 9:30 – 10:45.  
Consumer in Our Society (FINPLN 2185); MWF 9:00 – 9:50 or MWF 10 – 10:50.

Other PFP fall course offerings (<https://sis.iats.missouri.edu/soc/select.cfm>)

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**Student Loan Consolidation** ... The “new” interest rate [starting July 1<sup>st</sup>] has ‘officially’ been announced; it now becomes even more **essential to consolidate now** [**WHETHER YOU ARE GRADUATING OR NOT**] ...

### **What if I consolidated last year? I don’t want to lose my super low rate!**

If you consolidated last year, my recommendation is to do it again. By consolidating last year (at 2.875%) – which was the right thing to do – you locked the rates on the loans you consolidated. The loans you took out this year are currently at a variable rate (4.7% currently) that will rise above 6.5% if you do not consolidate. The primary thing to understand is that if you consolidate now, YOUR LOANS WILL NOT ALL ADJUST TO 4.75%. They will take a “weighted average” of your loans. For example, if you consolidated \$10,000 at 2.7% and have \$10,000 you’re consolidating now at 4.7% (rates adjusted to make for easier math and an easier illustration), you will have \$20,000 at 3.7% -- NOT \$20,000 at 4.7%. So if the bulk of your loans were locked in last year, your overall rate will be much closer to the 2.875% than to the current 4.75% (3.25% or 3 3/8<sup>th</sup>% in most of the cases I’ve seen). What does that mean? It means that the “financial net effect” of consolidating them together is the same as if you were to consolidate them separately (although combining them will make your money management, monthly repayment, etc. MUCH EASIER! and will have NO NEGATIVE IMPACT ON YOUR LOAN SITUATION) – what I’ve found, however, is that individuals with concerns were simply not consolidating this years loans. THAT IS A BIG MISTAKE! To determine what your weighted average would be, you can utilize the following calculator ([http://www.federalconsolidation.org/aginewconsolcalc/consol\\_loan\\_rate\\_worksheet.htm](http://www.federalconsolidation.org/aginewconsolcalc/consol_loan_rate_worksheet.htm)). This has been by far the most misunderstood issue regarding loan consolidation and wanted to be sure to clarify prior to the June 30 deadline. You’ve still got time to get it taken care of **TODAY**.

### **Where should I look to consolidate my federal loans?**

- If you're **in-school** – the Department of Ed makes good sense. You'll maintain your in-school status and will keep your 6 month grace period. You can do it over the phone – easiest method (888-758-9730) if you have only Direct Loans; online if you have federal loans other than Direct Loans.
- If you're **planning an extended repayment** (10+ years), review North Carolina info below ... (find program with the biggest rate reduction benefits).
- If you **plan to repay your loans within 6-10 years**, consider a program like "Educational Loan Company" (<http://www.educationalloancompany.com> – click on "consolidation"). They offer a better than average rate reduction incentive (1.75%), but unlike most programs that require 3-4 years of on-time repayment to receive the full benefit, ELC offers .5% reduction for auto payment and 1.25% reduction after only 24 on-time benefits (they do require \$20,000 or more in loans being consolidated to be eligible for all of their benefits). Something to consider if that fits your situation ...
- If you **plan to repay loans over a short period of time** (5 years or less), consider a program like FinanSure (<http://www.finansurestudentloans.com>) or Key Bank (<http://www.key.com/html/H-1.39.html>). The reason? Most consolidation agencies provide the bulk of their rate incentives after 36-48 on-time payments [not very beneficial if you've paid off the loan by then!]. What you should seek is a company that provides the best principal balance credit rather than rate reductions (unless the rate reductions are provided quickly (like Iowa's, which is provided after 6 months)). FinanSure offers .25% reduction for auto pay and a total of 4.5% total loan credit after 48 months (4.5% credit is provided incrementally). Key Bank offers .25% reduction in rate for auto pay and a 5% principal balance credit – BUT, the credit is foregone if the student applies for deferment or forbearance status in first 36 months of repayment. Those are the types of fine print to look carefully at when reviewing consolidation offers. In general, principal balance benefits will make more sense for you if planning to repay the loan quickly.

Currently, three programs (North Carolina, South Carolina, and Iowa) are open to students [don't have to call them 'home' to use them] where their consolidation benefits exceed those of the "average private program" (programs to consider when planning to 'extend' your loan repayment as outlined above). **North Carolina** is the only one that requires a connection (they also offer the largest rate reduction benefits – *2% total reduction after on-time payment*), but creating that 'connection' is not difficult (5 minutes and \$5) – read more about **STATE CONSOLIDATION INFO** at: (<http://financialsuccess.missouri.edu/stateprograms.pdf>).

### **THE UPCOMING STUDENT LOAN RATE CHANGE**

- The interest rate is scheduled to change on July 1<sup>st</sup>.
- Lock your unconsolidated loans at **4.75%** by consolidating before June 30<sup>th</sup>.
- The variable interest rate on Stafford Loans will rise to **6.54%** (6.625% after being raised to the next 1/8<sup>th</sup>) for students that are in-school or in grace (.6% higher if in repayment).
- The interest rate will rise to **7.94%** (8% rounded) for PLUS Loan borrowers.

**Consolidating now at 4.75% for Stafford Loans and 6 1/8<sup>th</sup> percent for Parent PLUS Loans makes a lot of sense.** More information is available on the 'student issues' section of our site to gather information about calculating your weighted rate (if you consolidated last year also), consolidating while in school, estimating your monthly student loan payment, etc.

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**Tip Archive.**

Free access to past weekly financial tips ...  
<http://financialsuccess.missouri.edu/archive.htm>

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A primary objective of the MU Office for Financial Success is to provide sound, non-biased information related to your financial life. Financial products are neither sold nor promoted. Our service is free to MU students and an inexpensive educational option for non-students. Visit (<http://financialsuccess.missouri.edu>) to learn more.

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**The Financial Tip of the Week is a service of the Office for Financial Success**

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Interested in a career in Financial Counseling/Planning? (<http://pfp.missouri.edu>)

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SUBSCRIBE TO: [financialsuccess@missouri.edu](mailto:financialsuccess@missouri.edu)
  - You may unsubscribe at any time by sending an e-mail (see contact info below) with "unsubscribe" in the subject line.
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**CONTACT INFO:**

- WEBSITE: <http://financialsuccess.missouri.edu>
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