

## 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/PowerPay.pdf>)*

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The June 30<sup>th</sup> student loan consolidation deadline is fast approaching – time to act! If you haven't done it already, read below to find out how ... New legislation [single-holder rule repealed!] – if you're at a FFEL school (school that is not a Direct Loan institution), you'll want to read about what this change means to you ...

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### **POWERPAY ...**

Last week's tip discussed issues surrounding 'putting your financial house in order' – one of the areas mentioned was debt management. I referred to a program many of you may be unfamiliar with [and subsequently asked about] ... PowerPay. PowerPay is a repayment strategy as well as a software package that I was introduced to nearly 10 years ago while in grad school at Utah State. I have yet to come across a better system ...

What it is. PowerPay is a software package developed by Utah State University Extension that illustrates the financial merits of paying down debts (savings in time and interest paid) vs. making minimum payments each month.

How it works. "PowerPayments" refer to a principle of "rollover" (often referred to as payments that "snowball") - when one debt is repaid, the amount paid monthly to that creditor is applied to a different creditor (typically the one charging the highest interest rate). The overall monthly payment never increases - only the distribution of payments change.

What does it provide. PowerPay can supply numerous helps: a calendar to visually see how to best apply payments, amortization schedules, repayment schedules, evaluate the merits of consolidating debt, analysis of using PowerPay vs. not using PowerPay, 'investing' in your debt, and also has the capacity of analyzing up to 99 creditors. An additional virtue of the program is how it enables one to 'personalize' their repayment – for one, repaying debt predicated by interest rates may make the most sense; for another, paying down small balances first may be much more motivational; while for another, they may owe money to family members, or others where they want to focus attention [for emotional or reasons other than financial].

Implementation. Utah State has created a beta website (<http://powerpay.org>) where you can go to play around with the program and see how it works. I personally like the software better, but the website at least allows you to work with it to see if it is something you want to purchase. If you are interested in learning more about the software, let me know and I can give you more information ...

Other PowerPay resources.

- <http://www.extension.iastate.edu/finances/personal/creditdebt/PowerPay.htm>
  - <http://www.rce.rutgers.edu/pubs/publication.asp?pid=fs870>
  - <http://hillsboroughfcs.ifas.ufl.edu/Powerpay.htm>
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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 3-3:50 (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 – 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 Law Change (repeal of Single-Holder Rule).** (Note. *This law change is not applicable to MU, ISU, or other students at Direct Loan schools*). The e-mail I received last night from my friend Tom (thanks!) made me so happy and relieved – this needed change was long overdue ... In the past, there was something in place commonly referred to as the 'Single-Holder Rule' – a real stinky scenario that required students with only one lender to consolidate with that lender, regardless of whether the student would be better off consolidating elsewhere [with few exceptions]. Thankfully, the House widely approved a bill that had attached the repeal of the 'Single-Holder Rule' to the bill. Yesterday (6/15), President Bush signed the bill, making it law [making the repeal effective yesterday]. What does this mean? Now, students at schools like my medical student friends at Des Moines University, a FFEL lender that uses Wells Fargo as their lender no longer are required to consolidate with Wells Fargo (a scenario a huge number of students were in because they may have not taken out loans from other lenders). In that type of situation, they would have to use their lender even though it may not be their best option. Many students at other FFEL schools are in identical situations. Now, students are permitted to search and find the best consolidation deal to meet their needs, rather than being pigeon-holed in a program because their school selected a particular lender ... KUDOS to the government for a change that benefits students!

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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 to do about the pending rate increase:**

- 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.** I guess my barking since January to do it appears pretty smart now. Don't wait until Friday the 30<sup>th</sup> at midnight to do it.

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 recent 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>)  
Contact me: [olesonm@missouri.edu](mailto:olesonm@missouri.edu)

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### **SUBSCRIBE/UNSUBSCRIBE:**

- Have friends that would like to receive the weekly financial tips?  
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>
- E-MAIL: [financialsuccess@missouri.edu](mailto:financialsuccess@missouri.edu)