

## 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/creditfreeze.pdf>)*

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(ONLY 7 MORE DAYS IF YOU HAVEN'T CONSOLIDATED) ... The June 30<sup>th</sup> student loan consolidation deadline is only a week away – the time to procrastinate is gone. If you haven't done it yet, you'll find instructions below. Many are still concerned about consolidating this year when they locked in at last years low rates. You shouldn't be! Let me put your mind at ease ...

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### **CREDIT FREEZE ...**

During the past year:

- This phenomenon has struck more than 25,000 Americans DAILY.
- Struck nearly 5% of Americans last year.
- 16% are victimized by friends, relatives, or co-workers.
- Odds are only 1 in 700 of the thief being caught by federal authorities.
- Where method is known, theft of information occurs electronically only 15% of the time – 85% of the time, mail, credit card statements, and other 'traditional' or "off-line" methods of stealing personal information are used.
- Emotionally, the impact has been found to parallel victims of violent crime.
- Recent studies indicate that unauthorized access to checking accounts is the fastest growing form.
- Up to 5% of the recipients of 'phishing' e-mails respond to them.

(Source. Privacy Rights Clearinghouse (<http://www.privacyrights.org/identity.htm>))

**The culprit? Identity Theft.** I don't know what impact reading through these statistics has on you. I feel astounded, bothered, frustrated, and angered all at once ... The question – what is being done about the problem that hits nearly 10 million consumers per year?

Currently, there are four general strategies used to try to minimize ID theft. The reality is that in most cases, I can do everything right (shred documents, etc.) and still be a victim. Unfortunately, three of the four are 'reactive' measures and the fourth isn't available to all consumers:

- Personally viewing my credit report. Each year, I can order a credit report from each agency for free. If I do one every 4 months, I can view my credit on a regular enough basis so that if there is a problem, I can spot it relatively quickly. Nice to find out quickly, but after the fact isn't obviously the answer.

- Fraud alert. This is an alert I can place on my credit report. In theory, a company is supposed to contact me before granting me credit if I've placed a fraud alert on my account. I say "in theory" because it is a nice idea, but creditors aren't required to abide by or even check the alert. So obviously that isn't the answer. Also, this alert normally has to be "renewed" after only 90 days.
- Credit monitoring service. Many pay annual fees (average of \$75 per year) to have a company tell them when people are reviewing their credit files. Essentially, my neighbor is calling me telling me my horses are out of the barn. It's nice to know, but doesn't it make a lot more sense to 'fix the barn door' before all the animals get out?

The 'best answer' I've seen is a measure referred to as a "Credit Freeze" – think of it literally as a 'freeze' on one's credit file. California, in 2003 was the first state to sign into law a credit freeze law. Many states have followed suit (23 to date – although many haven't yet taken effect). With a credit freeze, no one can open any form of credit in your name until you "thaw" your credit file. Most people will not open an account without reviewing your credit file – if it's frozen, not only is a thief unable to open an account, you personally would be unable to open an account [until thawing it – a process that takes an average of 3 days the way it is set up with most states]. A hassle? Maybe. That's why most financial companies and credit reporting agencies aren't thrilled about it. If it's harder for you to get credit, you're less likely to get credit. Is that so bad? ... Utah's state law (which isn't set to take effect until 2008) would enable consumers to have a pin that would let them thaw their credit in 15 minutes. I don't know about you, but if I could freeze my credit so that even if a thief had stolen my SSN or other private info they wouldn't be able to do anything with it, and then I could turn around and thaw my credit if I needed to in 15 minutes and then freeze it again, sure sounds like a positive solution to me.

Although it sounds good, there are problems with the state laws set up at this point:

- Fees. Many states charge \$5 to \$10 to freeze one's credit [per freeze plus the fee to thaw the credit] – my opinion, but I don't think this should cost.
- Must be victim. In 6 states (Hawaii, Illinois, Kansas, South Dakota, Texas, Washington), I must be a victim in order to freeze my credit. That seems silly ... Back to the barn analogy – I see I've got a faulty door and animals can get out. Rather than allowing me to fix the door (credit freeze), I'm told that I can't fix the door until the animals get out. Seems backward to me.
- State by State Legislation. As mentioned prior, only 23 states have passed credit freeze legislation – that leaves 27 (including Missouri) that have not! This does, however, allow protection for about 70% of the U.S.
- HR 3997 – Dubbed by many consumer advocates as "The worst data bill ever," this pending national legislation would invalidate the credit freeze laws that have been passed at the state level and would allow for it to be monitored/ decided upon at the national level (which would in reality make the law much more 'mild' than what has been established in many states). If this potential legislation concerns you, voice your feelings. This is obviously not a political newsletter, but there are times when politics are part of maintaining the best personal, financial situation. If you'd like, you can contact your representative at: <http://www.house.gov/writerep/> ...

*FYI - States that have passed credit freeze laws that allow all consumers to freeze their credit: California, Colorado, Connecticut, Florida, Kentucky, Louisiana, Maine, Minnesota, Nevada, New Hampshire, New Jersey, New York, Oklahoma, North Carolina, Utah, Vermont, Wisconsin).*

Additional ID Theft Resources.

- [http://www.consumersunion.org/campaigns//learn\\_more/003484indiv.html](http://www.consumersunion.org/campaigns//learn_more/003484indiv.html)
- <http://www.privacyrights.org/identity.htm>
- <http://www.identitytheftsecrets.com/>

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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 year’s 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.

Dr. O

### **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.** 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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### **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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- 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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