

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/homeshopping.pdf>)

The student loan consolidation bombardment is at a peak – **read below** for more information on what steps you should be taking. I recently compiled a “what you need to know” fact sheet. I have also included information about different State student loan consolidation options and the benefits they provide ...

WHAT I WISH I WOULD HAVE KNOWN THEN ...

I’ve been blessed in my life – one blessing has been perfect 20/20 hindsight. I have always had the ability to look back and see what I should have done ... perhaps you do the same? I should have opened up a Roth IRA when I was thinking about it last year; When I got the pay raise, I intended to bump my 401(k) contribution but haven’t yet; I should have consolidated last year when student loan rates were at 2.77% [don’t be saying next year when you’re around 6.5% that you should have locked in at 4.7% -- DO IT NOW INSTEAD!] – These are common sentiments that I hear. This list could obviously be much longer ... I’ve been talking to many very recent graduates (congratulations to all of you!) about homeownership. As I’ve spoken with them, I’ve shared information I know now that I wish I would have known back when [my wife and] I finished school, took a job, and purchased our first home. I’ve listed a few common mistakes and antidotes ...

Shop for the best rates. The notion that “my bank” will offer the best rate is no longer a safe assumption. I may want to use my bank, but I ought to shop around to find out what the best rates are. Most people don’t even know where to begin when shopping for rates – *my suggestion* – use a site like Bankrate.com to get an idea of rates nationally (http://www.bankrate.com/brm/rate/brm_mtg_avg.asp). Keep in mind that a low interest rate is not nearly as telling as the APR. The APR is the measure of both interest costs as well as fees (total cost of loan) – that should be your point of comparison when comparing loan rate and cost options.

Shop for the lowest fees. I think one place people get into trouble is with fees ... let me explain. Most people walk into a bank and sit down and talk with a loan officer about their wishes (not a bad thing) – the problem is that once the bank employee talks with them for an hour or so, most people will feel a sense of “obligation” to ‘finish the deal’ with them because they’ve already spent time on their behalf – they aren’t going to feel comfortable walking out and then continuing their “shopping” for the best deal. *My suggestion* – begin your search online (places such as lending tree, quicken loans, etc.) – fees are often lower via an online provider. In addition, this enables one to negotiate with another bank because you have some “tangible” numbers to work with. Yes, many of the fees can be negotiated. If someone won’t

budge, I'll guarantee you that walking away will be much easier by having gone to an online provider to get information first. It is much more difficult to walk away from a "live person" if you have nothing else to base your decision upon.

Don't be afraid to shop around. Many people are afraid to shop around for the best mortgage rates because they know that lots of inquiries have a negative impact on one's credit. *My suggestion* – shop around! What you may not know is that the newest FICO credit scoring model lumps all mortgage and auto loan inquiries within a 45 day period and treats them as only one inquiry. The old scoring model lumps all inquiries made within a 2 week period. Obviously this system makes sense since although multiple lenders are making a credit inquiry on your behalf, you're ultimately only looking for one loan.

First-time homebuyer programs. Most areas of the country have resources available for first-time homebuyers. There are eligibility requirements, but it's worth taking a look at. Benefits such as reduced/eliminated closing costs, low rate loan for remodeling an older home, and down payment assistance are a few examples of the types of programs available [along with homebuyer education programs]. To locate a program in your area, visit this site listing HUD-approved counseling agencies: <http://www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm> - they can inform you of local programs and resources. *My suggestion* – give it a try ... worst case scenario is you'll learn that you're not eligible for their program.

How much house can I afford. A HUGE MISTAKE many first-time homebuyers make is basing how much house they can afford on what a lender tells them they can afford – the result in many instances is foreclosure or premature sell of a house that isn't affordable. *My suggestion* – draft a budget so it is YOU that figures out what you can afford – then go to the bank to get pre-approved.

Use a checklist. There are so many things about buying a house that people often overlook because the attention is on the house itself ... i.e., other families in the neighborhood, proximity to your church, mall, grocery shopping, gas station, public schools ... *My suggestion* – utilize a checklist – many exist to help you so that you do not need to recreate the wheel.

Fixed vs. ARM. ARMs (adjustable rate mortgages) are very appealing at first glance [lower rate (up front), smaller payment] – I was reading this week that 42% of new mortgages are ARMs. An ARM can make a lot of sense if I know I'll be moving soon, but I need to know the costs – the rate will go up after the initial fixed period ends, when the rate goes up, my required payment will also go up (can be substantial). When rates are low, a fixed rate makes a lot of sense – consider different terms (15 year and 30 year are most common) – in high cost areas (such as California) offer 40 year loans (more than 25% of new mortgages in CA are 40 year loans). They've recently started a new 50-year loan product. *My suggestion* – understand the costs of various loan terms, the pros/cons of fixed rates vs. ARMs ... a common pitfall that many homeowners enter is choosing an ARM because it provides a payment they can afford – a fixed rate loan would be a better alternative, but they can't afford the payment. In that scenario, I should strongly ask the question – "can we afford to buy right now?"

My suggestion – learn as much as you can, particularly before making any decisions. Being an informed home buyer will enable you to get the best deal on the home, the loan, etc. The "homeownership resource" section of our site is a great place to get

started learning ... <http://financialsuccess.missouri.edu/otherresourcehome.htm>. Yes, hindsight may be 20/20, but there's nothing wrong with learning from the mistakes others have made to avoid making them in your own life.

MIZZOU Personal Finance Course Offerings – fall/summer ...

I'm very excited to say that the Personal Financial Planning Department has agreed to offer the popular Financial Survival Course this coming summer and fall terms!

SUMMER:

Financial Survival (FINPLN 4318, ref# 23455); MWF 12-1; 1st 4 week session (1 cr).
Other PFP summer course offerings (<https://sis.iats.missouri.edu/soc/select.cfm>)

FALL:

Financial Survival (FINPLN 1183, ref# 44250); W 3-3:50 (1 credit).
Other PFP fall course offerings (<https://sis.iats.missouri.edu/soc/select.cfm>)

Student Loan Consolidation ... Consolidating your federal student loans during the current semester appears smarter and smarter every day (***WHETHER YOU ARE GRADUATING OR NOT***). If you're in-school, simplify things and do it over the phone (if all you're consolidating is Direct Loans) – (888-758-9730).

If you're out of school/graduating this semester:

- If you're planning an extended repayment, review North Carolina info below ...
- If you don't owe a lot and/or plan to repay it over a short period of time (5 years or less), consider a program like the "Educational Loan Company" (<http://www.educationalloancompany.com> – click on "consolidation") – a colleague forwarded their info to me recently. 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 on-time payment and 1.25% reduction after only 24 on-time benefits. Something worth considering if you're in that situation ...

Currently, three programs (North Carolina, South Carolina, and Iowa) are open to students [don't have to be from there] where their consolidation benefits exceed those of the "average private program." **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>). I will continue to update this state info as more information becomes available.

MONITORING THE UPCOMING STUDENT LOAN RATE CHANGE

- The interest rate is scheduled to change on July 1st.
- Lock your unconsolidated loans at **4.7%** by consolidating before June 30th.

Based upon current information, your variable loan interest rate would rise to **6.44%** (this is the highest this rate has been since January 1st when I started monitoring this 'hypothetical rate') on July 1st if you don't consolidate prior. This rate is "officially" calculated the last business day in May. I will continue to update this information weekly ...

More information is available on the student loan consolidation section of our site (<http://financialsuccess.missouri.edu/consolidationhome.htm>) to gather information about calculating your weighted loan rate (if you consolidated last year at 2.77%), consolidating while in school, estimating your monthly student loan payment, etc.

Tip Archive.

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

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.

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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