

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

There was some eventful news this week for students and parents of students. Congress on Wednesday by a narrow 216 to 214 vote passed S. 1932, The Deficit Reduction Act of 2005, clearing the \$12.7 billion reconciliation bill for the President's signature [which he seems willing to sign]. This would [among other things] raise the interest rate on all Federal Stafford loans taken out after July 1st, 2006 to a fixed rate of 6.8% (significant increase from the current 4.7% rate). In prior years, Stafford Loans were a variable rate loan where the rate changed every July 1st until the loans were consolidated to 'lock the rate.' This change as well as the other modifications will dramatically impact students and parents of students. It doesn't, however, change the need for students to consolidate their federal loans this semester. Given the fact that rates were heading up regardless of the law change, students should have been consolidating anyway. I intend to meet with Financial Aid representatives this coming week to gather as much information as possible concerning what these changes are, what the impact is on students and parents, what that means parents and students should be doing, etc. I will plan to have next week's tip address these issues. I want to ensure that we're all on the same page prior to just sharing what I know at this early stage ... if you want to read more in the meantime about this, you can do so at:

- <http://www.nasfaa.org/publications/2006/greconciliationpasses020206.html>
- <http://www.nasfaa.org/publications/2006/greconciliationsummary020206.html>

Credit Card "Reward Cards" (BEWARE!)

For those individuals that pay their credit card balance in full, credit cards that provide rewards can make a lot of sense. There is research indicating people spend more money when they use a card – it obviously may not make sense if you spend more with a card than you would spend otherwise, but that's a different tip topic. Assuming you're going to use your card anyway and you do pay it in full, receiving a discount on gas, groceries, flight miles, cash back, etc. seems like a good thing. Obviously getting a 1% benefit for using the card doesn't make a lot of sense if I'm paying 18% interest. I recently read a Yahoo article that talked about other types of problems with some types of rewards program. Definitely something to keep your eye out for ...

Ironically, this credit card is one that touts its savings vehicle. One card deposits 1% of every purchase into a savings account that offers an APR of 3.5%. They even offer to kick in \$25 into the account with your first purchase. Wow, to the average Joe, this is going to sound pretty good ... So, what's inside the trojan horse? A year after opening the account, the company begins charging a \$35 annual fee (so you would have to spend \$3500 just to earn the \$35 you had offset with the fee. Late fees are \$29 a piece, and the cards APR ranges from 13.24% to 15.24% (22% if you pay late). The math on something like this is pretty simple [not smart] when you have all of the information in front of you, but small type is hard to read. Also, in case you weren't aware, there are several online banks (FDIC insured) which all pay 4%+ on their savings accounts [with no fees and no minimums]. A few to peruse ...

- Capital One (<http://www.capitalone.com/>)
 - Emigrant Direct (<http://www.emigrantdirect.com/>)
 - HSBC Direct (<http://www.hsbcdirect.com/>)
 - ING Direct (<http://home.ingdirect.com/>)
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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>)
Interested in becoming involved with the Office for Financial Success?

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