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Outreach + Financial Literacy Newsletter

Summer 2015

Snowballs and Avalanches in July, Oh My!

Budgeting - Debt Snowball/Avalanche

If you've never had any debt in your life, you're pretty much a unicorn. Most of us with higher education begin our adult lives in the red. But we have to pay for our education somehow. And oh man, does it feel good to pay stuff off!

The Debt Snowball and the Debt Avalanche are two popular strategies for paying down your debt. The Debt Snowball method involves making a list of all the balances you owe on credit cards, student loans, car loans, etc. and then paying down your smallest balance first. What you do is to simply pay the monthly minimum on all your balances, except your smallest balance, and on that one, you pay as much extra money to it as possible. Once you eliminate the smallest balance, you tackle the next smallest balance, and then the next until you've paid everything off.

With the Debt Avalanche method, you're paying the balance with the highest interest rate because that's the one that will cost you the most over the long run due to compound interest. Once you eliminate the balance with the highest interest rate, you'd tackle the balance with the next highest interest rate until all your balances are paid off.

Quick Wins vs. Long-Term Savings

Internet and radio personality Dave Ramsey has promoted the Debt Snowball for years. He says it's the best way because it helps you build momentum—with quick wins so you can see more immediate results. Advocates of the Debt Avalanche, however, make a great point that you can lose thousands of dollars by choosing not to tackle your highest interest accounts first. It's the more financially logical way to pay off your debts—it always wins in terms of time and money saved.

No matter the method, choose the plan that you can stick with long-term, not the one that you'll feel overwhelmed and give up on after three months.

Breaking it Down

Let's use this sample debt scenario and analyze our options:

Student Loan: $15,000 balance, 4.5% interest rate
Credit Card 1: $5,000 balance, 12.99% interest rate
Credit Card 2: $10,000 balance, 29.99% interest rate

Snowball Method:

	Debt	Balance	Interest	Months
1.	Credit Card 1	$5,000.00	$234.51	8
2.	Credit Card 2	$10,000.00	$5248.55	28
3.	Student Loan	$15,000.00	$2141.25	48

Total Interest Paid $7,624.31

Avalanche Method:

	Debt	Balance	Interest	Months
1.	Credit Card 2	$10,000.00	$1,230.84	25
2.	Credit Card 1	$5,000.00	$2437,33	18
3.	Student Loan	$15,000.00	$2002.81	45

Total Interest Paid $5,670.98

One Last Pearl of Wisdom

Once you've paid off your balance, make sure it stays paid off. Cut up your credit card, or close your account. Yes, your credit score will be slightly affected, but you're becoming debt-free. Keep the one credit card you've had the longest to maintain a good credit score and get rid of the rest of them!

Stuff that's FAB!

The Outreach and Financial Literacy team has some fab stuff we'd like to share with you! Here are some of our most recent picks:

- Watch this great video by TheNotSoOrdinaryWife on budgeting envelopes. It's part of a weekly series she does on YouTube called Financial Fridays. www.youtube.com/watch?v=4rVD4STxIUo
- Here's an eye opening article from iGrad

Amazing Grace: Graduating, Withdrawing, or Dropping below Half-Time

When you graduate, drop below half-time, or withdraw from your academic program, you will receive a six-month grace period for your Direct Loans—both subsidized and unsubsidized. Your grace period begins the day after you stop attending school on at least a half-time basis. Once your grace period ends, you must begin repaying your loan(s).

The repayment period for a PLUS Loan begins on the day after the final loan disbursement is made. However, if you're a graduate or professional student PLUS borrower (or if you're a parent PLUS borrower who is also a student), you can defer repayment while you're enrolled in school at least half-time. Also, for Direct PLUS Loans first disbursed on or after July 1, 2008, for an additional six months after you graduate or drop below half-time enrollment.

Remember, if you choose to defer payment on a Direct PLUS Loan, any interest that accumulates during the deferment period will be added to the unpaid principal amount of your loan. This is called "capitalization." It increases your debt because you'll have to pay interest on this higher principal balance.

Your school's exit counseling session you attended (or will attend) provides specifics on how your grace period and repayment works.

Here is a handy to-do list to keep you on track.

FAB Bits

Upcoming webinar highlights:

Why financial literacy should matter to schools
July 27 at 1 p.m. PT and July 29 at 10 a.m. PT

How to save your first $1,000
August 3 at 1 p.m. PT and August 5 at 10 a.m. PT

Looking ahead: Identity Theft

College students almost never think they are identity theft targets because, after paying their student loans and living expenses, they have little or nothing to offer a thief. They need to think again! Students are particularly at risk for identity theft because their credit records are mostly blank slates, which means they can be easily used to secure new credit. Identity thieves know this and are specifically targeting students for identity theft.