

# Outreach + Financial Literacy Newsletter

**ECMC** 

Summer 2015



# 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

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.

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

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

Credit Card 2: \$10,000 balance, 29.99% interest rate
Snowball Method:

Balance

\$5,000.00

\$10,000.00

\$15,000.00

\$15,000.00

# Credit Card 2 Student Loan

Credit Card 1

Debt

1.

		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

\$2002.81 45 Total Interest Paid \$5,670.98

Months

8

28

48

Interest

\$234.51

\$5248.55

\$2141.25

#### One Last Pearl of Wisdom

Student Loan

3.

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

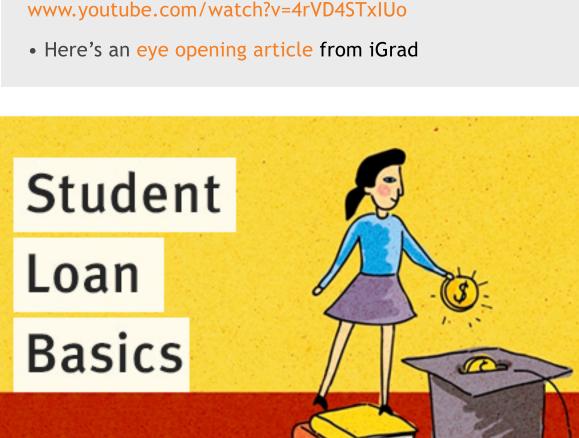
you! Here are some of our most recent picks:

Once you've paid off your balance, make sure it stays paid off.

Watch this great video by TheNotSoOrdinaryWife on

YouTube called Financial Fridays.

budgeting envelopes. It's part of a weekly series she does on



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.

Amazing Grace: Graduating, Withdrawing, or Dropping below

Your grace period begins the day after you stop attending school

on at least a half-time basis. Once your grace period ends, you

The repayment period for a PLUS Loan begins on the day after

graduate or professional student PLUS borrower (or if you're a

the final loan disbursement is made. However, if you're a

must begin repaying your loan(s).

balance.

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

repayment works.

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

Bits

loan. This is called "capitalization." It increases your debt

because you'll have to pay interest on this higher principal

Your school's exit counseling session you attended (or will

attend) provides specifics on how your grace period and

# 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

Why financial literacy should matter to schools

July 27 at 1 p.m. PT and July 29 at 10 a.m. PT

Upcoming webinar highlights:

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.