Work on Your Financial Willpower

Thinking wisely about money and exerting financial willpower must start early-as early as your teenage years. Once you have been accepted to a college or university, you are forced to be financially responsible. If you are not, then many sleepless nights of wondering how you'll pay the rent await you.

The cost of higher education has risen significantly over the past few years. According to businessweek.com, the cost of private college has increased 7.4% annually over the past 25 years. Despite the cost, earning law degree is a wonderful investment. Still, once the caps and gowns are taken off, graduates are faced with reality: the repayment of student loans. A monthly loan payment isn't the only thing recent graduates have to worry about. A survey of 700 students conducted by Smith College in August 2005 found that more than half of them use credit cards for books and supplies. Students also use credit cards for personal items (58%), dining out (50%), entertainment (48%), groceries (47%), and travel (33%). This is not to say students indiscriminately charge personal expenses to their credit cards. Rather, this points to a situation where financial aid does not cover the cost of tuition/fees or living expenses. This discretionary use of credit cards adds up. According to a Nellie Mae study, graduate students carry an average credit card balance of $4,776. Thus, graduates face monthly payments for loans, credit cards, rent or mortgage, insurance, car notes, personal expenses, etc.

However, developing your financial willpower can help you take control of your finances. There are a couple of ways to manage debt. One easy way to reduce monthly bills is to consolidate federal student loans. Federal Stafford Loans carry a 10-year repayment term. So if a student has five federal loans, he/she is making five different payments. These payments are calculated based on the standard 10-year repayment term. The shorter the repayment term is, the higher the monthly payment will be. Let's assume the student is paying $100 each month for each loan, with each loan carrying a balance of $10,000. That's $500 a month. If the student were to consolidate, he/she will get a longer repayment term (not to mention a fixed rate-more on this later). Consolidating all five loans will give the student a balance of $50,000 stretched over a 25-year repayment term and a monthly payment of about $250 (using an interest rate of 3.5%). The monthly payments are cut in half, freeing up money to pay down credit card debt or take care of other bills.

Now, 25 years may sound like a long time. Some people will have grandchildren by the time the student loans are paid off. But that's another benefit of federal consolidation. There is no early-repayment penalty. If you are able to send in more than the required monthly payment, you will not be penalized if you do so. Approaching the repayment term this way will help you pay the principal down faster and pay less interest over the life of the loan.

Continued on back

One more thing to keep in mind regarding federal student loan consolidation is the fixed interest rate you will get. Many borrowers carry federal loans with variable interest rates. These rates are adjusted annually and are capped at different levels, depending on the type of loan and when it was disbursed. If the rates ever do go as high as the cap, you'll be paying more than you have to. Consolidating federal loans will automatically give you a fixed interest rate for the life of your loans. The rate is calculated based on a weighted average of your current rates and loan balances. Consolidating now can give you a fixed interest rate as low as 5.375% after taking advantage of Law School Loans' borrower benefits. Consolidating federal loans is quick and easy. There's no reason not to consolidate. Taking advantage of this federal program will help you take control of your debt and give you more financial freedom.

When it comes to credit card debt, however, it'll take all the willpower you have to manage. The key is knowing how not to use your credit cards. Reining in your credit card spending will help you manage your credit card debt in the future. How does one avoid becoming a statistic? First of all, planning a detailed budget prior to attending school will keep you from overspending. Also, one must not fall prey to the credit card solicitors who find their way onto campus the first weeks of the semester. It makes sense to have one credit card for emergencies. But if you end up with 10 free gifts, and thus 10 credit cards, then you're in for trouble. And ask yourself these questions when you're about to pull out the plastic:

-Is this an emergency, a necessity, or an impulse buy?
-If I do need to have this item, will I be able to pay the balance at the end of the month?
-What is the interest rate on this card?
-Do I already have a balance on this card? If so, what is it?
-Do I have the cash to buy this item?

Asking yourself questions like these will give you the much-needed pause to really evaluate the purchase and keep you from adding to your credit card debt.

Consolidating your federal student loans and using your credit cards wisely will ease the pain of writing checks every month. Before you know it, you'll have developed the financial power to save for that much-needed vacation.