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MY MONEY

FINANCIAL EDUCATION - Powered by CAMBRIDGE CREDIT COUNSELING

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With all of the convenience that online shopping has brought, it's important to notice that it has also become much easier to drain your holiday budget than ever before. And even if you only go out shopping on Black Friday, it's still amazing how quickly the receipts can exceed what you thought you were going to spend - until the post-holiday bills start coming in. The tree is gone. The gifts have been opened and the home order restored. As if February wasn't tough enough!

And it's not necessarily just credit card statements showing the purchases you made during the holiday shopping season. There may also be utility bills reflecting increased energy usage due to holiday lights and heating, decorating and entertaining costs, and any other expenses incurred during the festivities. Don't let every holiday season end on a negative note. To manage those bills effectively, it's essential to:

Review Your Spending: Take a close look at your holiday spending and identify areas where you may have overspent. Understanding where your money went can help you plan better for future holidays.

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Yet Another Student Loan Update: What Can the IDR Adjustment Do for Me?

Recently, the U.S. Department of Education announced that it is extending a key deadline to consolidate federal student loans to receive the full benefit of the current IDR Adjustment. The deadline had been December 31, 2023. The new deadline is April 30, 2024. What does this mean for federal student loan holders? For many it means the opportunity to change their financial future for the better.

If you have older federal student loans that were issued through the Federal Family Education Loan program (usually abbreviated "FFELP" on your studentaid.gov dashboard), you must consolidate those loans to receive full retroactive credit for all payments made to date. This means that, even if you've never moved those FFEL loans into the Direct loan program – which you can easily do by requesting a Direct Consolidation Loan on studentaid.gov, you'll make those loans eligible for forgiveness while receiving retroactive credit for all payments made to date.

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Will Interest Rates Come Down Anytime Soon?

While national political debates often drift away from so-called kitchen table issues, most Americans have no trouble maintaining their focus on them. They want to know if their taxes will go up or down, whether they'll be able to make ends meet at the end of the month, and whether they'll still be able to retire at some point. Lately, consumers have also been especially concerned about interest rates and inflation. Ironically enough, consumer behavior, not political activity, may have as much to do with the recent struggles to keep these two factors in check.

The country's surging national debt is coming from two sources, increased consumer reliance on credit, and the burden of ongoing budget deficits, which result when government spending exceeds tax revenues. According to the Congressional Budget Office, the federal budget deficit was $984 billion in 2019. It is now forecasted to average $1.2 trillion over the next ten years.

During the Trump administration, the national debt grew to an astonishing $8.4 trillion, the result of overly generous tax cuts (particularly to corporations and the highest wage earners), pandemic relief efforts, and programmed increases in discretionary spending, largely for Medicare and Medicaid. The Biden Administration has done a little better, but it hasn't reversed the damage done by the tax cuts, and it, too, has been forced to continue pandemic stimulus efforts to ward off a recession (Think student loan payment pause, probably the most successful of all the stimulus programs.). But now that the economy is doing better, why haven't rates come down?

The Federal Reserve sets interest rates, not the president or the Congress, and when it sees increases in spending and debt driving up inflation, its remedy has always been to increase interest rates in an effort to get everyone to cool down.

When the Fed sees less spending, less debt, and inflation under control, it relaxes rates. At the moment, the economy is sending mixed messages to the Fed: unemployment is low, and economic growth has been steady over the last two years; consumer credit use is off the charts, and housing start-ups are low; Medicare and Medicaid costs are growing as the baby boom generation reaches retirement age; but inflation is back under control, and prices for most goods and services are coming down. If interest rates are reduced, won't that help keep things going in the right direction?

In May, when the Federal Reserve meets again, we'll have our answer. Many experts believe there will be a modest rate reduction, after which the interest charges on credit cards and other types of lending will start to come down, giving our wallets a break. But if we think we're out of the woods, we're missing the point. The real question is whether Americans will revert to the behaviors that got us into trouble in the first place? That's what the Federal Reserve is worried about.

Consumer spending and using credit cards to make purchases aren't really the same thing. If we only spend money we already have, that's fine. Our economy loves that kind of consumer spending. But if we're using credit because we can't afford to pay cash, that's troubling. In the fourth quarter of 2023, Americans held $1.13 trillion on their credit cards, and aggregate household debt balances increased by 1.2%, or 212 billion dollars. That's very unhealthy. So even if we get a modest rate reduction in May, if we can't wean ourselves off credit and pay down our balances, the Federal Reserve will have no alternative than to start raising rates all over again in the summer.

FINANCIAL TIP!

Be aware of your credit utilization! This is a big factor in your credit score. It's important to try to maintain a credit utilization of less than 30%. Keeping your balances low will help increase your credit score, making you more likely to secure good credit terms.

Paying Down Holiday Debt

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Create a Budget: Set a budget for paying off your bills. This budget should include not only the minimum payments required but also any extra payments you can afford to make to pay down the balances faster. Don't go overboard trying to pay off in just a month or two if that means making reductions that aren't realistic.

Prioritize Payments: If you have multiple bills to pay, prioritize them based on interest rates and due dates. High-interest debts should be paid off first to minimize interest charges.

Cut Unnecessary Expenses: Cut back on non-essential expenses temporarily to make more money available to pay off your bills. This might include dining out less frequently or canceling subscription services.

Talk to a counselor: Non-profit credit counselors aren't going to judge you or your spending. They're focused on helping you make adjustments and finding effective alternatives. The best time to talk to a counselor is before you start missing payments, but if you've already started falling behind, call as soon as you can.

Communicate with Creditors: If you're having trouble making payments, don't ignore the issue. Reach out to your creditors to discuss your situation and see if they offer any hardship programs or payment plans.

Plan for Next Year: Use your experience as a learning opportunity. Start saving early for next year's holiday season so you can avoid relying heavily on credit and minimize the impact on your finances. By taking proactive steps to manage your post-holiday bills, you can avoid unnecessary stress and set yourself up for financial success in the new year.

Yet Another Student Loan Update:
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Similarly, if you have Direct loans but you haven't been on an income-driven plan, you can switch into one now (the SAVE plan will probably be best for you, unless you have federal Parent PLUS loans), and, again, receive retroactive credit for all payments made to date.

There's also a benefit for all loan holders who took out federal loans several years apart. By consolidating before the April 30th deadline, your new consolidation loan will be credited with the payment count of the loan you included with the highest number of payments. (For example, if you consolidate two loans, one with 104 payments, and a second loan with just 55 payments, the resulting consolidation loan will be credited with 104 payments.)

Please, do not miss this golden opportunity. If you'd like to talk to a counselor about your federal student loan situation before April 30, please call Cambridge Credit Counseling at (888) 661-7910. Our counseling is free, but please don't delay. Our appointment schedule will fill up as the April 30th deadline approaches.

When was the last time you looked at your household budget?

Understanding where your money is going is a key part of living your best financial life. Even if it's been a while, or never at all, creating and maintaining your household budget has never been easier. We encourage everyone to visit our **FREE MyMoney Financial Education & Budgeting Portal** and start taking control of your finances.

www.MyMoney.Cambridge-Credit.org

Summer Vacation Plans *Start Now!*

Every year, we hear from families who've gotten into financial difficulty by going on vacation without any planning, overloading their credit cards and paying for their summer fun well into the fall. That may seem unavoidable for some, but with a modest amount of discipline, it's possible to go on vacation without damaging your family's finances. Let's go over a few things to consider while you're building your summer vacation budget.

How far will you be traveling? If you'll be flying, start researching flight costs to your destination. It's not always a case of the-earlier-the-better. Many flights hit their cheapest point roughly six weeks before the travel dates. Monitor prices six weeks from now vs. your actual summer travel dates and you'll see the difference. Waiting to book flights can be key. If you're driving to your destination, there's not much you can do about gas prices, but if you'll be renting a car/van/RV, then booking far in advance usually yields the best price.

Where will you be staying? Are you going to be staying in a hotel, booking a rental home or condo, camping? Lock in rates now and set aside money from each paycheck from now until payments are due to make sure you can afford your accommodations.

Is there a chance your trip might not happen? Many airlines and hotels have free cancellation policies, usually up until a certain date before your scheduled trip. For peace of mind, trip insurance is worth a look, at the very least.

What's your food and beverage plan? You'll need to create a reasonable food budget, and where you stay is a big factor. If you're staying in a hotel room, you can't cook a whole lot, but maybe they have a free breakfast. If you're in a condo and can cook most meals, plan your grocery list ahead to give you an idea of the cost. Be sure to include the cost of dining out if you're planning to do so.

What kind of additional activities will you be enjoying while you're away? Nearly every activity has some sort of cost associated with it. Even if you're just looking to go to the beach and lounge all week, make sure you research parking or admission costs. If you're planning on side excursions to local attractions or shopping for souvenirs, don't forget these activities in your budget.

Make sure your family is in on the budgeting process. Staying disciplined is much easier when you've got family members reminding each other that you're all saving toward a common goal.