

Reducing debt: a risk-free investment

Most of us have some debt; many of us are making minimum payments on those debts. But few of us know exactly how long it will take to pay off those debts (especially when making minimum payments), or just how much we are paying in interest.

Taking control of your debt

Power payments can help people control their debts. Power payments work like this: As soon as one of your debts is totally repaid, the monthly payment that was formerly sent to that creditor is applied to the next highest interest rate loan until all creditors are paid in full. The total amount of money for debt payments remains constant each month until all are paid. The **PowerPay® computer program** can demonstrate this for you. You do not need to come up with extra money. PowerPay® printouts will show how much interest (and time) you can save with your present payments as well as extra money you apply toward your debt.

How PowerPay® can help you

PowerPay® is a **free service** from ISU Extension, and your printouts are completely private.

Your balances, monthly payments and interest rates are entered into the PowerPay® computer program, which creates several personal printouts for you. One shows your repayment time and interest costs if you continue making debt payments at your current level.

Next, PowerPay® calculates what your repayment time and interest costs will be by making **power payments**. Remember, the PowerPay® program assumes payments that formerly were sent to paid-off creditors are applied to one of your other debts rather than being spent on something else. Power payments are more effective when families make a commitment to stop borrowing or charging until all current debts are paid. Some families who use power payments can save hundreds, even thousands of dollars in interest costs and get out of debt months or years earlier.

Other information from PowerPay®

- **Optional extra monthly amount.** Do you have some extra money (\$25, \$50, \$100 a month) that you could use to reduce debt? You may be surprised at how many interest dollars this can save you.
- **Optional one-time lump-sum.** Some families have money from a tax refund or bonus that could be put toward debt reduction. PowerPay® shows how many interest dollars and time this could save.
- **Optional debt consolidation.** Would you like to consolidate high interest loans to take advantage of a lower interest rate? Your PowerPay® printout will show how many interest dollars you could save by consolidating your debts at a lower interest rate.

For more information, contact:

Brenda Schmitt, Field Specialist
Family Resource Management
2023 S. Federal
Mason City, IA 50401
641-423-0844
schmitt@iastate.edu

IOWA STATE UNIVERSITY
University Extension

Helping lowans become their best.

Reduce Your Debts

the PowerPay® Way

a confidential **and free!** money-saving analysis from
Iowa State University Extension



IOWA STATE UNIVERSITY
University Extension

What you get from PowerPay®

Send a PowerPay® worksheet to ISU Extension and you will receive three printouts in the mail:

- **Analysis Summary (Example A).** This printout will list your creditors, current balances and payments. PowerPay calculates how long it will take until you are debt-free if you continue paying at your current level.
- **Repayment Schedule (Example B).** This sheet organizes your debts by highest interest rate to lowest. You will see side-by-side comparisons of your current payments vs. how you could benefit by making “power” payments.
- **Reduction Calendar (Example C).** This calendar will help you track your monthly power payments to each creditor. The calendar provides visual “proof” of how the payments are applied to other creditors as debts are repaid. You will see the month and year you can expect to be debt-free!

EXAMPLE A: ANALYSIS SUMMARY

NAME: Joanna Doe 11Jan01

Creditor Name	Current Balance	Monthly Payment	Annual % Rate	Approximate Time Without Power Payments
# 1 Dept Store	500.00	50.00	22.000%	1 yr 00 mo
# 2 Car loan	5500.00	150.00	9.500%	3 yr 08 mo
# 3 Credit Card	950.00	19.00	6.990%	7 yr 00 mo

Optional Extra Monthly Amount*:
 Optional Lump Sum Payment Amount*:
 Month for Lump Sum Payment*:

Note: In this example no additional monthly payment or optional one-time payment in designated month is included.
 * Introductory rate (first 6 months); rate after is 17.89%

EXAMPLE C: DEBT REDUCTION CALENDAR
 Debt with Highest Interest Rate Paid First

NAME: Joanna Doe 11Jan01

Monthly Total of All Payments: 219.00
 Includes Extra Monthly Amount of: 0.00
 Includes lump sum payment of: 0.00

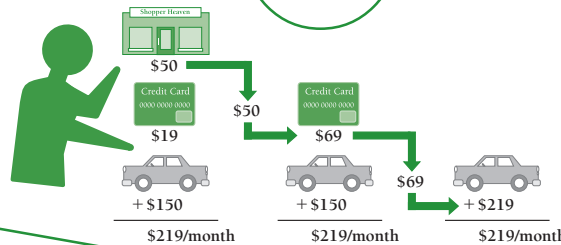
PowerPay analysis provided by: Iowa State University Extension. Projections only. Amounts may vary due to rounding and timing.

Month	Department Store	Credit card	Car loan
Feb-01	50.00	19.00	150.00
Mar-01	50.00	19.00	150.00
Apr-01	50.00	19.00	150.00
May-01	50.00	19.00	150.00
Jun-01	50.00	19.00	150.00
Jul-01	50.00	19.00	150.00
Aug-01	50.00	19.00	150.00
Sep-01	50.00	19.00	150.00
Oct-01	50.00	19.00	150.00
Nov-01	50.00	19.00	150.00
Dec-01	50.00	19.00	150.00
Jan-02	7.44	61.56	150.00
Feb-02		69.00	150.00
Mar-02		69.00	150.00
Apr-02		69.00	150.00
May-02		69.00	150.00
Jun-02		69.00	150.00
Jul-02		69.00	150.00
Aug-02		69.00	150.00
Sep-02		69.00	150.00
Oct-02		69.00	150.00
Nov-02		69.00	150.00
Dec-02		69.00	150.00
Jan-03		69.00	150.00
Feb-03		42.04	176.96
Mar-03			219.00
Apr-03			219.00
May-03			219.00
Jun-03			219.00
Jul-03			219.00
Aug-03			219.00
Sep-03			219.00
Oct-03			219.00
Nov-03			219.00
Dec-03			219.00
Jan-04			219.00
Feb-04			219.00
Mar-04			49.95

Here is an example:

A) Analysis Summary

The Department Store (Creditor # 1), with a balance of \$500 will take 12 months (one year) to pay off at 22 percent interest. The Car Loan (Creditor # 2), with a balance of \$5,500 and an interest rate of 9.5 percent will not be paid off for almost four years (44 months)! Note the number of years it will take to pay off Creditor # 3, the credit card balance.



B) Repayment Schedule

Creditors are listed from highest interest rate to lowest. One side shows the amount of time required to pay all debts without power payments (seven years); the other side shows the results with power payments (three years two months). The total savings is \$508.49 and the time to pay off all debt is reduced by three years ten months.

EXAMPLE B: REPAYMENT SCHEDULE

Creditor Name	WITHOUT POWER PAYMENTS			POWER PAYMENTS-HIGH INT FIRST		
	#Pmts	Tot Paid	Int Paid	#Pmts	Tot Paid	Int Paid
# 1 Dept Store	12	557.44	57.44	12	557.44	57.44
# 2 Car loan	44	6522.55	1022.55	38	6454.91	954.91
# 3 Credit Card	84	1581.45	631.45	25	1140.60	190.60
Total Monthly Pmnt						
Time to Repay		varies			219.00	
Loan Amt Repaid		7 years 0 months			3 yr 2 mo	
Interest Paid		6950.00			6950.00	
Total Amt Paid		1711.44			1202.95	
		8661.44			8152.95	

SUMMARY OF BENEFITS FROM MAKING POWER PAYMENTS

Time required to pay off all debts reduced by 3 years 10 Months
 Amount of Money Saved \$ 508.49

C) Reduction Calendar

Total monthly credit payments are \$219. When the first creditor, the department store, is paid off in January 2002, the \$50 for that loan is now applied to the highest interest rate loan, the credit card, increasing that payment from \$19 to \$69. That loan is paid off in February 2003, and the \$69 is then applied to the car loan, increasing the payment to \$219. By March 2004, all debts are paid in full.

... and justice for all

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, gender, religion, age, disability, political beliefs, sexual orientation, and marital or family status. (Not all prohibited bases apply to all programs.) Many materials can be made available in alternative formats for ADA clients. To file a complaint of discrimination, write USDA, Office of Civil Rights, Room 326-W, Whitten Building, 14th and Independence Avenue, SW, Washington, DC 20250-9410 or call 202-720-5964.

Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture. Stanley R. Johnson, director, Cooperative Extension Service, Iowa State University of Science and Technology, Ames, Iowa.