UNIVERSITY OF FLORIDA
EXTENSION
Institute of Food and Agricultural Sciences

# PowerPay!

*Anita McKinney, Extension Agent—Money Management*
*Duval County Extension Service, 904-387-8850*

*Save time & interest by using the "power payment" principle for paying off consumer loans.*

Wondering how to reduce the cost of consumer credit? PowerPay can help!

The principle of power payment says that as soon as one loan is paid off, you apply the monthly payment from that loan to the next loan. By the time you work your way down the list of debts, you are applying a large monthly amount to the remaining loans.

## How Does PowerPay Work?

By adding the amount of the payment of one loan to the next one as you pay down the loans, you save in two ways:

1. Time, and
2. Interest costs

Saving time means that you can pay off your consumer loans quicker. If you are planning to apply for a mortgage or just want to get out of debt, this will get you there sooner.

An added benefit is that you will also pay less interest charges.

## Let's Look At An Example

Tom and Sue Smith have 5 outstanding consumer loans:

- Personal loan, monthly payment $100
- Store credit card 1, monthly payment of $25
- Store credit card 2, monthly payment of $75
- Bank credit card, monthly payment of $25
- Car loan, monthly payment of $150

In total, the monthly payments are $375.

Using the recommendation from the PowerPay summary, Tom and Sue will start using the PowerPay method. For the first 17 months, they will pay each loan as contracted.

In month 18, the power payments start. The calendar that follows illustrates how things change from month 18 to month 19. The first store card has a balance of only $11.64. The difference between the balance and the usual $25 payment is added to the personal loan payment. Once the second store card is paid off, this payment amount is also applied to the personal loan. The same happens with the bank card payment. For months 23-27, the only two loans being paid are the personal loan and the car loan.

| Month | Personal Loan | Store Card 1 | Store Card 2 | Bank Card | Car Loan |
|---|---|---|---|---|---|
| 1-17 | 100 | 25 | 75 | 25 | 150 |
| 18 | 113.36 | 11.64 | 75 | 25 | 150 |
| 19 | 137.50 | | 62.50 | 25 | 150 |
| 20 | 200 | | | 25 | 150 |
| 21 | 200 | | | 25 | 150 |
| 22 | 221.55 | | | 3.45 | 150 |
| 23 | 225 | | | | 150 |
| 24 | 225 | | | | 150 |
| 25 | 225 | | | | 150 |
| 26 | 225 | | | | 150 |
| 27 | 211.54 | | | | 43.25 |

The Institute of Food and Agricultural Sciences (IFAS) is an Equal Employment Opportunity – Affirmative Action Employer authorized to provide research, educational information and other services only to individuals and institutions that function without regard to race, color, sex, age, handicap or national origin.
U.S. DEPARTMENT OF AGRICULTURE, COOPERATIVE EXTENSION SERVICE, UNIVERSITY OF FLORIDA, IFAS, Florida A. & M. UNIVERSITY COOPERATIVE EXTENSION PROGRAM, AND BOARDS OF COUNTY COMMISSIONERS COOPERATING.

## Adding Optional Extra Payments

If Tom and Sue can pay an additional amount — $15 or $25 a month, for example — the amount of time for repayment decreases more and the interest saved increases.

## Are There Other Things I Must Do?

The only other rule is about what you **do not** do. You don't take on new debts or charge any items on accounts that you can't pay off in that month. For instance, if you need to put an item on your store charge account, you only add what you can pay off in the next billing cycle.

***Getting out of debt means not adding to your existing debt.***

## How Do I Handle Credit Once I Have Used the PowerPay Method?

The first step is to understand the difference between open-ended and closed-ended credit and use these tips to pay as little for credit as possible.

An example of ***closed-ended credit*** is your car or furniture loan. You sign a contract agreeing to the amount of each payment and how many payments you will make. The interest charge is included in your payment.

You can reduce the cost of closed-ended credit by

- Making as large a down payment as possible, leaving less to be financed.
- Finding the lowest interest rate available. Shop around at retailers, dealers, and financial institutions.
- Paying your bills on time. Late payments usually cost you a fee.
- Paying back the loan sooner by paying ahead when you have the extra cash.

Examples of ***open-ended credit*** are bank or store credit cards. You can charge up to your credit limit by simply signing a charge slip. You don't sign a new credit contract each time. Payments are flexible so you can arrange payments to meet your budget.

You can reduce the cost of open-ended credit by

- Paying off the balance in full each month. While paying the minimum may seem like a life saver, it can also be a financial trap because it will take a long time and cost a lot of interest charges to finally pay it off.
- Obtaining a card with the lowest annual interest rate (APR), if you carry a balance.
- Obtaining a credit card with a generous grace period and no annual fee, if you pay the balance in full each month.
- Understanding how the interest on your card is calculated. For an explanation, check your monthly statement.

**Credit can be managed!**

**Set your financial goals & develop your credit & savings strategies to meet your goals.**

Adapted from information provided by Extension Specialists from Michigan State University and Rutgers Cooperative Extension.

*PowerPay* developed by F. Dean Miner, Jr. and Judy Harris, County Extension Agents, and Larry K. Bond, Extension Economics Specialist, Utah State University Cooperative Extension Service.

### Tips For Beginning A Savings Program

*Most savings programs do not begin with a large initial deposit, but rather come from several smaller amounts saved gradually over a longer period of time.*

Save a windfall (work bonus, tax refund)
Trim excess spending (avoid eating out, set an entertainment spending limit)
Avoid credit card use (Take credit cards out of your wallet to make yourself pay cash or postpone buying)
Control impulse buying (Do I need it? Will I use it? Can I afford it?)
Pay Yourself First (consider savings a fixed expense, set up an automatic withdrawal from your paycheck)
Continue installment payments after a loan is paid off (but put it in a savings account instead)
Collect loose change (periodically deposit it in a savings account)
Break a habit (put candy money in a piggy bank instead)
Take your lunch (you can save $25 to $50 a week)