Your Money and You

"ASK THE BROKER!"

with Gary R. Miles

Q: Is your outlook bullish or bearish for the market during Q3 & Q4?

A: Bearish. It's a natural cycle...it's slowing down.

Q: Do you think Alan Greenspan is doing a good job?

A: Not too bad...Yes, he is doing an excellent job.

Q: Do you think we'll have an economic recession?

A: No. We won't have over two quarters slowdown. Productivity per individual will increase.

Q: Can you tell us some of your favorite stock picks for the rest of the year?

A: Lucent
GE
PNC Bank
Erie Insurance
Biomira
Adelphia

Q: Any other points we should know?

A: Everything will slow down for a year..it's a cycle. It will come back..not like it did before, however. The market is finding its own true value right down.

Mr. Miles graduated from Behrend with an Accounting major in 1973. He now clears through U.S. Clearing and is an arbitrator with the National Association of Security Dealers (NASD). He currently works as an Investment Broker and can be contacted at (814) 725 - 6446.

From Wall Street, the closing market figures for 03/21/2001:

DJIA:
9487.00
down 233.76 (- 2.40%)

NASDAQ:
1830.23
down 27.21 (- 1.46%)

S&P 500:
1122.14
down 11.37 (- 1.46%)

BOND:
101 7/16
down 5/32
(current rate is 5.27%)

Interest Rate:
5%

Consumer Price Index (CPI):
Up 0.3%

Unemployment Rate:
4.2%

All about student loans

Financial Outlook

Amortya Sinha
money page editor

This is a 2 part article about all you ever wanted to know on student loans, right from which loan you should get, to tips on paying back your loan and how you can save hundreds of interest payment dollars on these loans.

Much of the information in this article was taken *from www.cnnfn.com & www.freschno.com.*

As with any newspaper article, this is not meant to be used as your loan adviser or to supplement your financial adviser. This article is just to give you a basic idea on student loans. All information in this article was accurate as of August 14, 1996. If you are interested in taking out a student loan, contact your local bank or credit union.

In an August 1996 *Education Daily* article entitled :"Education Loan Programs," Rebecca S. Weiner stated: "the average college undergraduate leaves school $10,000 in debt, an increase of 15 percent from last year, says the nation's largest student loan guarantee agency. The Indianapolis-based USA Group attributes the increase to higher college costs, expanded loan eligibility and the growing amount of student aid offered through loans rather than grants."

Here are the most basic types of student loans:

Federal Stafford Loans:
For students with demonstrated need. Includes subsidized, unsubsidized, and direct student loans.

Federal Parent Loans for Undergraduate Students (PLUS) Loans:
For parents with good credit history, demonstrated need not necessary. Borrow up to the total cost of education minus any student aid awarded, per child.

Privately Sponsored & Insured Loans:
Also known as "supplemental" or "alternative." Ideal for families that cannot get any or enough aid to meet their full need.

The Federal Stafford Loan Program:
The Federal Stafford Loan Program (formerly called the Guaranteed Student Loan Program) permits students with demonstrated need to borrow money for educational expenses from private sources such as banks, credit unions, savings and loan associations, and education organizations. In some states, a public agency and/or a college can act as a lender.

Subsidized Federal Stafford Loans:
Subsidized Federal Stafford Loans have lower interest rates than most commercially available loans except Perkins Loans. The government pays the interest while the student is enrolled. For new borrowers, the interest rate is variable, based on the 91-day Treasury-bill (T-bill) rate plus 3.1 percent, capped at 8.25 percent. Repayment on both interest and principal is deferred until six months after a student graduates or leaves school. In most states, a state government guaranty agency (or a private organization authorized by the state government) insures the loans. In those states where there is no guaranty agency, the federal government insures them, in which case they are called Federal Insured Student Loans.

Most states require Federal Stafford Loan borrowers to be full-time students. First year students may borrow up to $2,625 a year, and upperclass students may borrow larger amounts annually, to a maximum of $23,000 for dependent undergraduates ($46,000 for independent graduates). If you borrow money under the Stafford Loan Program, you are charged an origination fee or service charge of 3 percent. Your guaranty agency may also charge you an insurance premium of up to 1 percent. This amount is subtracted from the amount of your loan money before you receive payment.

Stafford Loans are insured against the student's death or total disability, but there are no provisions for cancellation of any part of a loan for other reasons. Under certain circumstances (such as full-time study or economic hardship), repayment can be deferred temporarily. The schedule for repayment is worked out between the student and the lender; the borrower usually has between five and 10 years to repay, with the amount of monthly payments and the length of the repayment period depending on the total amount borrowed.

Unsubsidized Federal Stafford Loans:
Unsubsidized Stafford Loans are intended for use by students who do not qualify for a Federal Stafford Loan and/or who need additional funds. The amounts, interest rates, and terms are generally the same as for subsidized Federal Stafford Student Loans, with a couple of important differences. Repayment begins when the loan is disbursed instead of when the student graduates or leaves school; the borrowers may opt to postpone payments until leaving school, but interest begins to accrue immediately.

Tip:
When given a choice between a SUBSIDIZED loan and an UNSUBSIDIZED loan, always choose the subsidized loan. The fact that you do NOT have to pay back the interest that accumulated on a subsidized loan while you were in school can result in thousands of dollars saved.

With UNSUBSIDIZED loans, if you can afford to do so, arrange to make monthly or quarterly payments on the accrued interest while you are in school. You will save a lot of money over the long run by doing so. Also, your monthly payments upon leaving school will generally be lower.

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> -*Education Daily*, August 14, 1996
> by Rebecca S. Weiner,
> Education Loan Programs

Federal Direct Student Loan Program (FDSLP):
Some students can borrow subsidized and unsubsidized Federal Stafford Loans from the federal government through a new Federal Direct Student Loan Program (FDSLP). If the college you attend is participating in the FDSLP, the financial aid office will tell you how to apply for these loans. (Parents of students enrolled at participating institutions will also be able to borrow Federal PLUS Loans under FDSLP.) The interest rates, maximums, and other terms and conditions are the same as a Federal Stafford and PLUS Loan.

Federal Parent Loans for Undergraduate Students (PLUS) Loans:
The Federal PLUS Loan Program allows parents to borrow up to the total cost of education minus any student aid awarded, per child. (There is no longer an annual limit or aggregate total.) The interest rate on a Federal PLUS Loan is variable, based on the 52-week T-bill rate plus 3.1 percent, and is capped at 9 percent. Monthly repayments begin within 60 days of disbursement although some lenders may permit borrowers to make interest-only payments while the child is still enrolled. Federal PLUS loans are made without regard to financial need, but borrowers must demonstrate that they have a good credit history. Because repayment must begin within 60 days, Federal PLUS loans are primarily assistance in meeting the cash-flow problems caused by college bills. Some parents borrow under the Federal PLUS program to meet all or part of the expected family contribution, while others borrow to make up the difference between costs and their contribution plus available financial aid.

Privately Sponsored & Insured Loans:
Privately sponsored and insured loans are ideal for families that cannot get any or enough aid to meet their full need. These supplemental education loans have more favorable interest rates and/or other special features than other consumer borrowing options. Eligibility generally relates more to demonstrated creditworthiness than demonstrated financial need, and parents rather than students are generally the borrowers under such programs (although creditworthy students may be eligible as well). A few private supplemental loan programs permit students and parents to borrow jointly. The terms and conditions of each of these and other supplemental loan programs differ considerably. Prospective borrowers should "shop" for the loan that best meets their needs.

Federal Reserve lowers key interest rates

by William Neikirk
March 21, 2001
Chicago Tribune

WASHINGTON -- Amid a Wall Street clamor for bolder action to stimulate a sluggish economy, the Federal Reserve opted for a more moderate course today in deciding to reduce short-term interest rates by one-half percentage point for the third time this year.

Yet the nation's central bank, headed by Chairman Alan Greenspan, sent a strong signal it would slice interest rates again if it saw "substantial risks" in the form of lingering weakness in sales and production.

"In these circumstances, when the economic situation could be evolving rapidly, the Federal Reserve will need to monitor developments closely," the Fed said in a statement. Analysts take these words as signaling another possible interest rate cut well before its next meeting on May 15.

Disappointment in the stock market was evident by the way the major indices plunged, with the Dow Jones industrials dropping 238 points.

But the Fed made it clear it is still concerned about a possible recession, saying its monetary policy was tilted toward treating "conditions that may generate economic weakness in the near future."

The Fed's policymaking arm, the Federal Open Market Committee, reduced the federal funds rate – the interest rate commercial banks charge each other for overnight lending – from 5.5 percent to 5 percent. To make this happen, it will pump more money into the economy, which in turn will lower other short-term interest rates, such as the prime lending rate.

As a result, there will be a quick decline in many consumer interest rates. Automobile financing and home equity loan rates will be cheaper. Mortgage rates also could fall, although the Fed has no direct control over long-term rates.

Some analysts said the central bank would have to push interest rates down by 0.75 to 1 percentage point before the economy begins to turn around. "The Fed is behind the curve," said Brian Wesbury, chief economist at Griffin, Kubik, Stephens & Thompson, a Chicago investment banking firm.

Stan Shipley, economist at Merrill Lynch in New York, agreed. He said the markets had been expecting a 0.75 percentage point cut, and naturally there was a sharp stock plunge after the Fed made its move. At the same time, Shipley said he expected another interest-rate cut before the May 15 meeting.

"This is a good, safe, middle-of-the-road action," said Brookings Institution economist Barry Bosworth. While many Wall Street analysts were pushing for a 0.75 percentage point decrease, he said that the bolder move "sounds a little panicky" and might have been interpreted as a bailout of Wall Street.

The White House declined to comment on the action, although President Bush continued to express his concern about the state of the economy. The president once again called on Congress to approve his tax cut bill.

Sen. Tom Harkin (D-Iowa), one of the most persistent Federal Reserve critics on Capitol Hill, said he was disappointed that the central bank moved by only 0.5 percentage point.

"In the past, Alan Greenspan has talked about the 'wealth effect' of a rising stock mrket causing excessive spending and perhaps creating pressures that would accelerate inflation," the senator said. "Now, we have the opposite impact, the 'poor effect.'"

Some analysts site the wealth effect, the rise in value of stock portfolios, as one of the major factors in the economic boom of the last few years. Economsits disagree over how much economic growth occurs from a stock-supported sense of well being, but Bosworth said it is clear there is a positive impact on consumer spending.

From the desk of the Money Page Editor

Are you a motivated writer? Do you take keen interest in Finance, Economics, or anything with business related affairs? Would you like to see your name and your articles in the future issues of the Behrend *Beacon*?

If you answer is yes to any of the questions above, we are looking for keen, energetic people like you to join the Money Page team.

Please email the Money Page Editor at axs428@psu.edu for further consideration.

Thank you for reading the Money Page and have a very productive semester.

Amortya Sinha
Money Page Editor
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