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Fee-Only Financial Advice

## CREDIT CARD NEWS

by Ken Robinson, JD, CFP®

**Universal default:** Like most Americans, you probably have at least one credit card. It's not uncommon for families to have eight. And for each one, there's that fold-up brochure with the tiny print and the legalese that goes on and on and on.

That's your credit card contract. It includes all the terms and conditions that you agree to when you use your card. And buried in all that tiny print is a provision that might surprise you.

You know that you must pay at least the minimum balance by the due date to keep your account in good standing. If you don't, the bank that issues your card can raise your interest rate. What you may not know is that the bank can raise your interest rate even if you've been late repaying some *other* loan. Not another loan with that bank, but another loan with *anyone*.

This concept is called *universal default*. You can have a spotless record with Bank A. But if you're just a few days late with a payment to Bank B, Bank A can raise the interest rate that they charge you, too.

Banks get this information by reviewing your credit report, usually from one of the three major credit

reporting agencies: Experian, Equifax, or TransUnion. This isn't just when they decide whether to give you a credit card. From time to time, after they've opened your account, the issuer will check to see if you're still

as credit-worthy as they want you to be. And if you're late on someone else's loan, that could reflect on your ability, banks say, to repay *all* of your loans.

Bank representatives state that this is just the way the credit contract works. You're allowed to borrow money at a certain interest rate based on a level of credit-worthiness. If your credit-worthiness should decline, the conditions of the loan have changed. Consumer advocates counter that this amounts to a change in the terms of the deal after the contract has been agreed to. And they point out that current interest rates, often well over 20%, would have been associated with loan sharks not so long ago.

Yes, credit cards are convenient. But paying extra interest because

of "universal default" is one more reason to pay off those cards every month.

**New rules:** On top of this, numerous publications have lately reported that minimum monthly payments have been increasing, in many cases, from a typical 2% per month to 4%. As it turns out, it's not that simple. But adjusting to the new system may not be as hard as we imagined.

Because there were conflicting reports in the media, I went to the source: the Office of the Comptroller of the Currency (OCC), under the Federal Department of the Treasury. The OCC regulates national banks, so when the OCC talks, banks listen. While national banks



## INSIDE THIS ISSUE

2 Credit Card News (Continued)

3 Spring Cleaning

4 Money-Saving Vacations

Continued on page 2, *Credit Card News*



## CREDIT CARD NEWS (continued)

Continued from page 1, *Credit Card News*

aren't responsible for all credit cards, they account for much of the credit card lending in this country. Here's what I learned.

The rule change is different than has been widely reported. It doesn't say that minimum credit card payments must be 4% of the unpaid balance. Actually, minimum payments must be at least 1% of the unpaid balance, plus finance charges and fees imposed. So if there's a \$10,000 balance, 1% would be \$100. Add finance charges of \$150, for example, and maybe a late payment or over-limit charge of \$30, and the minimum payment would be \$280.

The next month the balance would be \$9,900, if you make no new purchases. So the new rule assures that if you make the minimum payment, you'll always be chipping away at your principal.

The rule isn't new. It was announced three years ago. January 2006 was the deadline for banks to implement the new procedures. Some banks began making changes long ago. Your card issuer may have updated its procedures several months before the deadline.

The law hasn't been changed. The "rule" is not written into law. The OCC describes it as a reasonable

banking practice. When they examine the operation of a bank, they look for substantial compliance with this rule. While the OCC says this essentially means that banks have to follow the rule, it would be incorrect to call it a law.

The rule applies to only national banks. But this doesn't mean the bank's name will be easy to find on the statement. For instance, a furniture store's credit accounts might actually be handled by a national bank, even if the store's brand name is on the account. If the lender issuing the card is a national bank, they'll need to follow the rule, even if they're lending through the store. By contrast, if the store maintains its own credit department, they will not have to follow the new rule, as long as they're not a national bank.

So, how good is this for consumers? Not as good as if the reports had been right, and the new minimums really were 4% of the principal. Under the new rule, a \$5,000 balance on a card charging 18% per year will still take over 20 years to pay off and will cost over \$11,000. Your best response to credit card debt is still the same as it's always been: Pay more than the minimum every month and eliminate the debt as soon as possible. ■ ■ ■

## ERRORS ON YOUR CREDIT REPORT

**T**his is yet another reason that it's so important to review your credit reports. Errors on credit reports are very often

negative. Removing mistakes will reduce the chance that you'll be charged higher interest rates. Once a year, you can get a free copy of your credit reports from each of the three major credit reporting agencies at [www.annualcreditreport.com](http://www.annualcreditreport.com). Or call (877) 322-8228.

Some advisors suggest you make a schedule and request a credit report from one agency (e.g., Experian), review it, and fix any errors; four months

later request a credit report from another agency (e.g., TransUnion), review it, and fix any errors; four months later request a credit

report from a third agency (e.g., Equifax), review it, and fix any errors; then four months later it is time to request the free report from the first agency. Others point out that not all errors will show up on the first report. They suggest you get all three at the same time so that

you're not waiting eight months to discover an identity theft that shows up only on your third report.





## SPRING CLEANING *(In a financial sense, of course)*

by W. Tedd Oyler, JD

I am hardly a neatness freak – in fact, I think too much cleanliness is its own form of illness, but I **DO** advocate cleaning up one's financial life periodically. And if that process helps straighten up the house, then who am I to argue?

I encourage folks to do their tax planning long before it is time to actually prepare the tax return, so it is certainly not too soon to be working on your 2006 taxes. I know, I know – you just got 2005 filed and want very much to think about almost anything else **OTHER** than taxes, but that's the sort of thinking that can cost you money year after year . . . after year after year.

Similarly, this is as good a time as any to do some general financial clean-up, if only because we here in Michigan crawl out of our bear dens this time of year, shed our winter coats, and spiff things up a bit before we can be outside full time.

In that vein, what are some of the simple but meaningful things we can do right now to put ourselves in better financial shape hereafter?

### Clean Out Closets

And maybe the basement – even the garage. Then everything that we find still in good shape but that we haven't used recently and are unlikely to "need" in the foreseeable future should be taken to Goodwill Industries or another charitable organization for the wonderful tax benefit available to us for making non-cash donations to legitimate non-profit recipients. It really doesn't make sense to simply store unused and unnecessary material goods when they may truly be valued by somebody else, does it?

Make sure you assign values to the donated items that represent their true "worth" as charitable contributions (I'll bet you a dollar that you are underestimating those values) – and then you are probably something like a thousand bucks better off on your 2006 tax return.



### Clean Out Records

I am asked as often about this as I am any other single issue – most people I work with want to know how long to keep financial and tax records. Here's a quick rundown:

- **Check registers and most other bank records** - keep for one year generally and 7 years only if used to support otherwise unsupportable tax filings
- **Pay stubs** - just keep the most recent one
- **Credit card statements** - one year (I update all my files at the beginning of the new year, tossing everything like this that is more than 12 months old)
- **Loan documents** - keep until the loan is paid off but keep proof of loan discharge until the property is sold
- **Estate planning documents** - keep until revised (see below), unless the documents tell a story about why certain things were done and certain things **NOT** done – things like disinheritance
- **Auto and home insurance policies** - discard after renewal (when the company sends you a new policy)
- **Life insurance** - keep forever, or until the policy is canceled – and make sure that your family or trustee has the details on the policy
- **Brokerage statements** - keep the annual 1099s with tax records; monthly statements can be discarded at any time so long as trade confirmations are retained until those investments are sold (for capital gains evidence)
- **Tax returns and supporting documents** - I call this the "audit file" – and it should be retained for 7 years, then shredded in a celebratory manner

There are other suggestions, but these are the most pressing. Clean out your files at least annually, and spring is as good a time as any.

### Estate Planning

Go get your will and Patient Advocate and any other estate planning paperwork right now and look to see if everything is current. If you are unsure, talk with your attorney to confirm. I'll wait.

Have you checked? You **DO** know where they are, don't you? You **DO** have the documents prepared, don't you? If not, then get to gettin'.

And all this would be a wonderful start on your spring cleaning. ■ ■ ■



## MONEY-SAVING VACATIONS

by Karen Folk, Ph.D., CFP®

Most of us make arrangements to protect our home when we are away on vacation. We stop the paper and hold the mail or make arrangements for pickup. We put lights on a timer to make the house look occupied; we have someone care for our pets. In the rush to get everything done before we leave, we may forget the steps needed to protect our financial security while we are away.

Start by paring down your purse or wallet to only the essentials. A couple of credit cards should be sufficient. Credit cards are safer to use than debit cards since credit cards limit your liability if stolen. Take at least two cards in case one malfunctions. Before you go, make copies of every document you are taking, including passports, the front and back of all cards, and drivers' licenses. You can keep those copies at home. Leave a key with someone who could access those copies and give you the information you need in case of a theft. Or take 800 numbers and other information you would need to report a theft in a separate list. Use a travel wallet that stays hidden under your clothes for passports, cash, and travelers checks. This can be a vacation saver if you lose your wallet or purse or have one—or both—of them stolen. Experts now recommend leaving your Social Security card locked away, not in your wallet or purse, even when you are not on vacation.

If you are planning to rely mainly on credit cards and take minimal cash with you, phone each credit card company and ask them to put a note in your file with the dates of your travel and locations. Credit card companies monitor unusual purchases or changes of location and could put a hold on your card if they are unable to reach you by phone to verify your vacation purchases. If you plan to use an ATM card to withdraw cash, informing your bank of your plans,

and possibly increasing your daily limit for cash, may be helpful. Travelers checks or cash? That is up to you, but with the advent of easy access to cash through ATM machines, you may not need to use travelers checks. If you do need them, they are safer than cash, and remember to keep the list of check numbers and

a record of those you have cashed in a separate location from the checks themselves.

Once on your trip, stay alert and avoid showing large amounts of cash. Take only the amount of cash needed for that day in your wallet or purse – keep the remainder in your hidden travel wallet. Carry wallets in front or inside pockets and purses with the opening turned toward your body. Put the strap over your chest, not just on your arm. Keep other valuables such as keys, cameras, jewelry, and tickets with you or leave them in the hotel safe. Avoid leaving items in full view in either your room or rental car. Always lock yourself in the hotel room and secure windows; lock your rental car and keep all items out of view.

Try not to advertise the fact that you are a tourist. Check with the hotel about areas of the town or city that should be avoided; orient yourself with a map before you leave your room. Minimizing the number of separate items you carry with a totebag or backpack may help you avoid losing them. Keep maps and travel guides in the glove compartment of your rental car; avoid discussing travel plans or amounts of money needed in the presence of strangers. Trust your instincts when it comes to strange situations. Remove yourself from dangerous or suspicious situations immediately; try to move to a well-lit area with people.

With a few precautions, you can safely relax and enjoy your vacation. Don't forget the sunscreen and insect repellent! ■ ■ ■

