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Protecting Your Financial Information in Cyberspace

Consumers are conducting financial transactions in cyberspace more and more frequently. Consequently, they may become vulnerable to tracking, hacking, identity theft, phishing scams, and other online risks. While nothing can guarantee *complete* safety in cyberspace, much can be done to understand and minimize your exposure to risk.

Here are some basic ways to help maintain privacy on the web:

- **Understand privacy policies.** Before conducting any financial transactions online, carefully read the privacy policies of each institution with which you plan to do business. Find out how the business intends to maintain and secure your financial information. If you don't understand the legal jargon, ask questions. You can always email or call a business and request a simplified explanation of its privacy policies.
- **Avoid using easily decipherable PINS and passwords.** When deciding on PINS, passwords, and other log-in information, avoid using your mother's maiden name, your birth date, the last four digits of your Social Security number, or your phone number. Avoid other obvious choices, like a series of consecutive numbers or your home town. Also, avoid using the same PINS and passwords on multiple sites. Then, if your PIN or password is discovered on one site, the others will remain secure.
- **Look for secured web pages.** Use only secure browsers when shopping online to guard the security of your transactions during transmission. There are two general indicators of a secured web page. First, check that the web page url begins with "https." Most urls begin with "http;" the "s" at the end indicates that the site password will be encrypted before being sent to a third-party server. Second, look for a "lock" icon in the window of the browser. (It will not be in the web page display area.) You can double-click on this icon to read details of the site's security. Be cautious about providing your financial information to websites that are not well known. Larger companies and well-known websites have developed policies to protect the rights and financial information of their customers. So, resist the temptation of providing personal information to companies that are unfamiliar to you.

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The Basics of Financing Your New Home

If you're in the market for a new home, Congress is providing an incentive—the homebuyer credit. If you qualify and buy a home before April 30, 2010, you could receive a credit worth up to \$8,000 for first-time homebuyers or \$6,500 for current homeowners. What's more, interest rates are favorable, and good deals aren't difficult to find in many areas of the country.

Buying a home is the single largest purchase most people will ever make, and for first-time homebuyers especially, the financing process can seem especially confusing and complex. Here is a brief guide to help you find a mortgage that best suits your needs and financial goals.

The two basic mortgage types are **fixed rate mortgages** and **adjustable rate mortgages (ARMs)**. Deciding which is right for you depends on a number of factors, including the spread between the prevailing fixed and variable mortgage rates, the length of time you expect to own your home, the current inflation rate, and the tax savings you expect to receive from the home mortgage interest deduction.

Fixed Rate Mortgages

A fixed rate mortgage is characterized by an interest rate that remains the *same* for the life of the loan, consistent monthly payments, and a principal that will be fully repaid at the end of the loan. The total amount of interest you will pay on a fixed rate mortgage increases with the term, which generally ranges from 15 to 30 years.

One major advantage of a fixed rate mortgage is the certainty of knowing your monthly payments will not increase over the life of the loan, even if interest rates rise. On

the other hand, the major disadvantage is that if interest rates drop, your monthly payment will not decrease. The only way you will be able to take advantage of a drop in interest rates is to **refinance** the loan, which may be a costly transaction.

Adjustable Rate Mortgages (ARMs)

An adjustable rate mortgage carries an interest rate that a lender can *vary* during the loan term. ARMs are designed to shift the risk of rising interest rates from the lender to the borrower. To offset the increased interest rate risk, ARMs usually offer borrowers a lower rate—compared to a fixed rate mortgage—during the first year. If you are considering an ARM, you will probably encounter the following terms:

- **Index.** An index is a benchmark used by a lender to adjust an ARM's interest rate. Commonly used indexes include the rate on U.S. Treasury securities and the average cost of Federally-insured savings and loan funds.
- **Margin.** Also called the “spread,” this is the amount a lender can add to the value of the index specified in the loan agreement.
- **Initial Rate and Adjusted Effective Rate.** The initial rate is the interest rate at the start of the mortgage. It is typically lower than the amount you would owe on a fixed rate mortgage. Very low initial rates, called “teasers,” are designed to persuade you to enter into the loan.

The adjusted effective rate is the rate you pay when the adjustments kick in. It is calculated as the value of the index specified in the loan agreement plus the

margin. For example, if the index value rises to 8% and the margin is 2%, the adjusted effective rate is 10%. (The adjusted effective rate is not the same as the **annual percentage rate (APR)**, which includes the points levied on the mortgage.)

- **Adjustment Period.** Mortgage payments or interest rates may change—every six months, annually, or every three years—according to the length of the adjustment period.
- **Caps.** ARMs may include several kinds of caps. A **payment cap** limits the increase in monthly payments at each adjustment period. An **interest adjustment cap** limits the amount by which the interest rate can rise or fall at each adjustment period. A **lifetime interest cap** limits the maximum interest the lender can charge during the loan term. A **lifetime payment cap** limits the percentage by which principal and interest payments can increase during the loan term.
- **Negative Amortization.** Negative amortization occurs when your mortgage payment is less than the amount necessary to cover the interest on the loan. As a result, the unpaid interest is added to the loan principal. The loan agreement may cap the amount of negative amortization allowable.

Understand Your Options

There is no “right” way to finance a home. All financing arrangements involve trade-offs. The more you know about your options, the better equipped you will be to arrange a mortgage that suits your needs.

Working with Your Estate Planning Team

Estate planning often involves the coordinated efforts of an estate planning *team* consisting of your attorney, accountant, and financial professional. However, whether establishing a new estate plan or revising an existing one, only *you* can provide the guidance, direction, and information needed to develop an effective plan. Most estate planning teams begin the process by requesting that you complete a questionnaire and asset inventory. Although this may seem an arduous task, the more comprehensive the information you provide, the more your team will be able to help you achieve your goals.

Although some questions may seem intrusive, each has a specific purpose. When formulating an estate plan, you may be asked to provide any or all of the following information:

Beneficiaries

- The names, ages, relationships, and special needs of family members and other beneficiaries.
- Copies of property settlements, other financial agreements, and court decrees relating to your family.

Health

- Information on your current health and the health of your beneficiaries.
- The average health and life span of your ancestors.

Assets and Liabilities

- A list of your assets, their estimated net value, and documentation of ownership.
- Identification of your liabilities and those of your spouse.

Existing Plans

- A copy of your current will, including information on contractual or legal restrictions on the disposition of your assets.
- Documentation of survivorship provisions and beneficiary designations on insurance policies, retirement plans, employee benefit plans, business buy-sell agreements, and other such assets.



Objectives and Purposes

- Your goals and aspirations for yourself and each beneficiary.

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Smart Alternatives to Credit Card Debt

When you need quick cash, buying with “plastic” may be one of the most expensive ways to borrow. Credit card interest rates can be high, while the tax write-off for consumer interest has been eliminated. One of the smartest ways to trim your financing costs is to find alternatives to credit card debt, such as the following:

Pay cash for purchases. Impulse buying can wreak havoc with your budget. If you wait several days before making a large purchase, you may decide you don’t need the item after all.

Consolidate debts. Homeowners may be able to obtain a home equity loan with a lower interest rate to consolidate debts. However, remember that you are borrowing against the equity in your home, so it is generally best to use an equity line of credit for long-term assets rather than consumables, such as vacations and everyday items.

Use low interest or rate of return savings to pay off higher interest debt. Suppose you have a \$1,000 **certificate of deposit (CD)** that matures at 4%. Instead of rolling it over into another CD, use the money to pay off \$1,000 of credit

card debt carrying 18.5% interest. You will forgo \$40 of interest income but save \$185 of credit card interest, for a net savings of \$145.

Comparison shop for credit. Another way to trim credit card costs is to shop for low rate and/or no-fee credit cards. Consumer publications and websites publish lists of economical cards.

The ease of credit causes some consumers to forget that credit costs money (interest). By keeping your borrowing costs low in the present, you may have more money for building your future.

working with your estate planning team

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- An assessment of each beneficiary's ability to manage assets.

Once fully informed, your estate planning team can help you accomplish the following:

- Analyze your assets to determine which should be disposed of during your lifetime and which should be retained, as well as whether special expertise will be required to value and dispose of your assets.
- Identify which assets will be subject to probate and estate taxes, and estimate the potential cost to your estate.
- Estimate and plan for the liquidity needs of your estate, your surviving spouse, and other family members and beneficiaries to cover estate taxes, probate costs, and future living expenses.
- Guide you in selecting the best domicile, if applicable, to help reduce the net effect of taxes on your estate.

Bear in mind that no estate plan is final. Marriages, remarriages, births, deaths, professional changes, and new legislation may necessitate adjusting an existing plan or creating a new one. Also, the composition of your assets may change over time. To keep your estate plan up-to-date, notify your estate planning team of any relevant changes as they occur, and work with them if they alert you to any relevant legislative changes.

protecting your financial information in cyberspace

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- **Keep your operating system up-to-date.** High-priority updates are critical to the security and reliability of your computer. They also offer the latest protection against malicious online activities. When your computer prompts you to conduct an update, do it as soon as possible.
- **Use updated antivirus software and spyware.** Viruses and spyware are two kinds of potentially malicious software from which you need to protect your computer. Keep both your antivirus and your spyware programs updated regularly.
- **Keep Your Firewall Turned On.** A firewall helps protect your computer from hackers who

might try to delete information, crash your computer, or steal your passwords or credit card numbers. Make sure your firewall is always turned on.

- **Do Your Homework.** To learn more about securing your computer and protecting your personal information, privacy violations, identity theft, phishing scams, and more, visit www.getnetwise.org, www.onguardonline.gov, or www.wiredsafety.org. These websites provide valuable information to help you protect your private information when conducting financial transactions online.

In addition, the Federal Trade Commission (FTC) works for the

consumer to prevent fraudulent, deceptive, and unfair practices in the marketplace. To file a complaint or to obtain more information, visit www.ftc.gov or call 1-877-FTC-HELP (1-877-382-4357).

While maintaining anonymity on the web can be challenging, it's important to protect your financial information and the financial information of your family. In time, more protective measures will be established to help ensure that your financial information is protected from unknown third parties. In the meantime, it is up to you to safeguard your financial information through education and awareness.

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