

Money 2000

University of Wisconsin-Extension

Family Living Programs

and Beyond

Time to refinance?

With mortgage interest rates at 30-year record lows, if you have been waiting to refinance the loan on your home, now may be the time. But you need to do your homework and shop for the best terms.

Often there are fees for refinancing, so look behind the rate to find the true cost of the loan. Several Web sites offer online calculators to help you identify all the costs and crunch the numbers to see if a refinance will benefit you. Here are two: Select "Calculators."

www.bankrate.com —

www.choosetosave.org/tools

Be cautious with cash-out loans

According to secondary mortgage lender Freddie Mac, two-thirds of refinances this past summer were cash-out loans. That's where the homeowner takes out a mortgage for more than the original amount, and uses the cashed out equity for other purposes. Three out of four used the difference to pay off higher interest credit card or auto debt.

On the surface, that might sound like a good idea. But remember, increasing your mortgage to give you extra cash **today** means that you could be paying interest on that money for the next **30 years!**

Even though the rate may be lower and mortgage interest is tax deductible, a cash-out loan could be a very expensive choice.

The table below shows the cost of different ways to pay off a \$6,000 credit card balance. Including the balance in your refinanced mortgage would add \$38 to your monthly mortgage payment and an additional \$7,651 in interest.

Making \$150 a month credit card payments would pay off the \$6,000 in 51 months and cost \$1,506. By taking out a 4-year home equity loan at 7.5% to pay off the credit card, your monthly payments would be \$145 with \$963 in interest charges.

NEWS

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Costs of paying off a \$6,000 credit card balance (10.99% APR)

	Adding to mortgage*	Making credit card payments	Home equity loan*
Amount	\$6,000	\$6,000	\$6,000
APR	6.5%	10.99%	7.5%
Monthly payment	\$38	\$150	\$145
Length of loan	30 years	4 years, 3 months	4 years
Interest paid	\$7,651	\$1,506	\$963
Total cost	\$13,651	\$7,506	\$6,965

* Deductible from income tax if you itemize

What are you teaching your children about managing money?

What every young person should know about finances

The Jump\$tart Coalition* identified a dozen personal finance principles to help young people get off to a good financial start:

1. **Map your financial future.** Take time to list your financial goals, along with a realistic plan for achieving them.
2. **Don't expect something for nothing.** Be leery of advertisements or sales pitches promising anything for free. Remember, if it sounds too good to be true, it probably is.
3. **High returns equal high risks.** Recognize that no one will pay you high interest rates on a sure thing. The higher the interest or return offered, the higher the risk of losing some or all of the money you invest. Diversifying your assets is the best protection against financial risk.
4. **Know your take-home pay.** Before committing to significant expenditures, realistically estimate your income — after deductions.
5. **Compare before you buy.** Learn to be a good comparison shopper to find the best value for the money. And by shopping more carefully, you avoid impulse purchases.
6. **Pay yourself first.** Before paying bills and other obligations, set aside an affordable amount each month in accounts designated for emergencies and financial goals.
7. **Money doubles by the "Rule of 72."** To determine how long it will take your money to double, divide the interest rate into 72. For example, an account earning 6% interest will double in 12 years:
 $72 / 6\% \text{ interest} = 12 \text{ years}$
8. **Your credit past is your credit future.** Be aware that credit bureaus maintain credit reports that record your history of paying bills and repaying loans. Negative information in your credit report can affect your ability to borrow in the future.
9. **Start saving young.** Your total savings is determined by how much you save, the rate of return and how long you save. The sooner you start saving, the more you will have.
10. **Stay insured.** Purchase insurance to protect yourself from large financial losses such as an accident or illness.
11. **Budget your money.** Create a spending plan to identify expected income, savings and expenses. Use it to guide your spending decisions.
12. **Don't borrow what you can't afford to repay.** Credit is a powerful financial resource. Be a responsible borrower who repays as promised, and build a solid credit history.



* The Jump\$tart Coalition for Personal Financial Literacy seeks to improve the personal financial literacy of young adults. For more information, call (888) 453-3822 (888-45-EDUCATE). Or visit their Web site: www.jumpstart.org

Put an end to telemarketers

Beginning January 1, 2003, **any** business soliciting state residents by telephone — whether from inside or outside Wisconsin — must

- obtain a copy of the Wisconsin No Call List, and
- delete the consumers' numbers on that list from its own calling list.

Residents who do not want to be called at home can register their home phone numbers on the state's No Call List. Registration lasts for 2 years, at no cost to consumers. The list will be updated quarterly: January 1, April 1, July 1 and October 1.

To register, call (866) 966-2255 (866-9NOCALL).

Or you can sign up at the Wisconsin No Call Web site:
<http://nocall.wisconsin.gov>

Your phone number will go on the list 30 to 120 days after you register, and stays on the list for 2 years. So if you add your number to the list before January 2003, it will remain until the end of 2004. You can also add to the No Call List other phone numbers, such as an elderly relative's.

Telemarketers who call someone on the No Call List can be subject to a \$100 fine per call. If you receive a call after you have registered, get the telemarketer's name, the company they work for, and their Wisconsin telemarketing license number. Make note of the date and time the call was made, and fill out a No Call Complaint questionnaire.

Exceptions to the No Call List

- Calls made to existing customers
- Calls made in response to your written or verbal request or permission
- Calls encouraging you to purchase property, goods or services from a "nonprofit organization" — unless sales proceeds are subject to Wisconsin sales tax or federal income tax
- Calls made for noncommercial purposes such as polls, surveys and political parties
- Calls made to a business number
- A call made by an individual acting on his or her own behalf and not as an employee or agent of any other person

Remember, even if a call is exempt from this law, you can still stop many unwanted calls by simply telling the caller not to call you again. Federal law requires every business to place your name on their "no call" list if you request it.



To register for the No Call List, call (866) 966-2255 (866-9NOCALL).

**Or you can sign up at the Wisconsin No Call Web site:
<http://nocall.wisconsin.gov>**

**Paying too much
for credit? Ask
your county
UW-Extension
office about the
packet *Credit Card
Smarts* NCR 613.**

Credit card costs increasing

Consumer Action's 2002 National Credit Card Survey found most companies are increasing the costs you pay in the following ways. How does your credit card company compare?

Minimum monthly payment: Nearly half require you to pay only 2 percent of your outstanding balance each month; another fourth require 2 to 2.5 percent as the minimum payment. Since many people only pay what's required, a low minimum means **you will pay hundreds or thousands of dollars in interest** over the years it takes to pay off the balance.

Introductory rates: Three of four card issuers offer lower "teaser" APRs (annual percentage rates) to new cardholders. The average introductory interest rate on purchases is 3.63% and the average for transferred balances is 3.93%. Most of these offers stay in effect for 6 months.

Cash advances: Two-thirds of cards charge higher interest rates for cash advances — an average of 19.27% compared to 11.73% for purchases. Cash advances begin accruing interest immediately, even for cardholders who pay off their balances in full.

Late fees: Nearly three-fourths of card issuers will hit you with a late fee if your payment is not received on the due date. Late fees range from \$10 to \$35, with half charging \$29.

Penalty APRs: If you don't pay on time, late fees are not the only punishment you face. Three-fourths of cards charge a higher penalty interest rate for customers who make one or more late payments.

Risk-based rates: A growing number of credit card issuers will not quote a firm APR until they have screened the applicant's credit history. This practice allows them to charge a higher rate to high-risk borrowers. Only direct-mailed, pre-screened applicants get a firm APR before applying.

For more information on the 2002 Annual Credit Card Survey or to find low rate credit cards, visit the Consumer Action Web site:

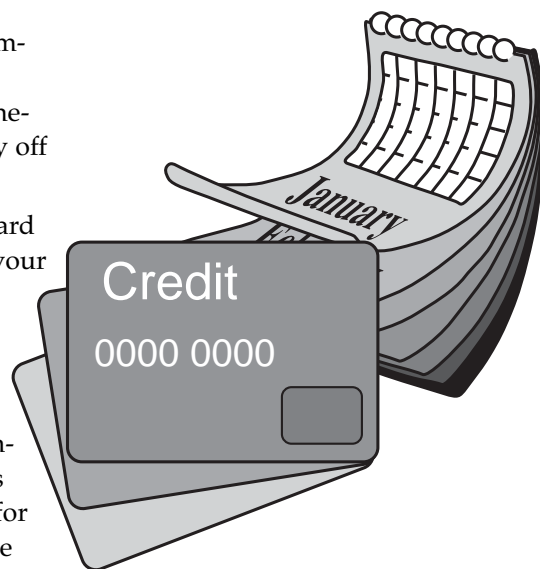
www.consumer-action.org

Or call the Consumer Action Complaints Hotline (English and Spanish): (415) 777-9635 (Pacific time)

Money 2000 and Beyond:

www.uwex.edu/ces/money2000

Internet access is available at many public libraries or other public places in your community.



This is the last issue of *Money 2000 and Beyond News*. Watch for a new UW-Extension education program *America Saves/Wisconsin Saves* to help you **build wealth, not debt**.

University of Wisconsin-Extension provides equal opportunities and affirmative action in employment and programming, including Title IX and ADA requirements. *Money 2000 and Beyond News* is written and compiled by Linda Boelter, CFP, family financial management specialist, UW-Extension.

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