This newsletter is perfect for Financial Planners, CPA's, Bookkeepers, anyone in the financial services industries.

LPL FINANCIAL SERVICES
Linsco/Private Ledger

THE FINANCIAL REPORT

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UNDERSTANDING CREDIT SCORES

The FICO score is the single best summary score of one's credit worthiness. A credit score number is often called a FICO score, for Fair, Isaac and Co., the California-based company that developed the system upon which it is based. The score is supposed to distill all the information in your credit report, plus other factors such as your age, your income, whether you own or rent a house, how long you've lived there, and how long you've been in your current job.

It's designed to give lenders a fast, accurate prediction of the risk involved in giving you a loan. Lenders have attested to the score's value in streamlining the underwriting process and creating more opportunities for consumers to get mortgages. Scores range from the 300s to about 900, with the vast majority of folks falling in the 600s and 700s. The higher the score, the better.

When determining how high a score will be, five characteristics separate the cream of the crop from everyone else. In order of score significance:

Past delinquency: People who have failed to make payments in the past tend to do the same in the future. The way credit has been used: Someone who is maxed out or close to the limit on a credit card is considered a greater risk than someone who doesn't look at the high credit line as a license to print money. The age of the credit file: Fair, Isaac's model assumes people who have had credit for a long time are less risky. The number of times a person asks for credit: The system frowns upon those who have initiated several requests for credit cards, loans or other debt instruments over a short period of time.

A customer's mix of credit: Someone with only a secured credit card is generally riskier than someone who has a combination of installment and revolving loans. (On installment loans, a person borrows money once and makes fixed payments until the balance is gone, while revolving borrowers make regular payments, each of which frees up more money to access.)

How is credit worthiness gauged using the credit score? It depends on the type of loan a consumer is seeking. For example, a mortgage broker will give more weight to different credit factors than a credit card issuer.

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On The Inside:
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Odds N' Ends

The Gold Mine **(TGM), Size 11" X17" (folded in half to 8 1/2" X 11"), Four Pages, Heavy 100 Lb. Glossy Premium White Paper, Distinctive Gold and Black Ink - Printed Bi-monthly only.**

Advantage

We gain the advantage in any situation through one medium: time. We gain the advantage by doing things before they need to be done – positioning ourselves ahead of time in the best place. Those who think ahead of the approaching action will have the advantage. They will be the winners.

How to Question Your Banker

If you are concerned about the safety of the bank or thrift, there are things you can look for.

• Any bank or thrift should be able to give you its financial statement. Most banks publish them semiannually or annually.

• Read the statement, looking at the net worth, the number of "workouts" (situations in which bank officers are helping troubled companies get back on their feet), and the amount of real estate owned.

What you're trying to determine is the quality of the bank's investments. This is easier if the bank or thrift is a publicly traded company. These companies must file documents with the Securities & Exchange Commission.

• Look at the bank's track record over time. If the bank or thrift has gone through extraordinary growth, it means that the institution has put out a lot of money, and it may have taken more risk.

• If you are depositing more than $100,000, you should be able to discuss the kind of investments the institution has made.

• You should also look at the accountant's report. Each institution has one. Be sure to read the "exceptions" to the accountant's statement.

• Ask about the bank's "at risk" loans or "scheduled items" (loans that have been in default for 60-120 days.)

And of course be sure that your bank is insured by the FDIC or the FSLIC.

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Mortgages: By Freddie Mac standards, borrowers with FICO scores above 660 are likely to have an "acceptable" credit reputation and their loan files need only a basic review. The credit risk is "uncertain" for those with scores between 620 and 660, with a thorough review of the borrower's entire credit history. A score below 620 indicates "high risk" with an unacceptable credit reputation that could make traditional financing difficult to obtain.

Most very good FICO scores are in the mid-700s. The borrower will see standard pricing, assuming a FICO score above 680. A score above 720, the pricing gets better. If you get above 750 -- with some lenders in some cases -- you'd see another improvement in the points. On the average $200,000 (home purchase), it can mean up to $1,000 to a consumer.

Credit cards: Credit card lenders place additional weight on credit card-related information, such as how many times a person missed revolving credit payments. And the systems evaluate a college student targeted for a starter card differently than a platinum-toting stockbroker with a summer home in the Hamptons.

Auto lenders: Auto scores, on the other hand, focus on "deal characteristics" in much the same way the mortgage scores do, David Shellenberger, product manager at Fair, Isaac and Co., says. They take into account things such as the amount a customer puts down, for example, as well as a borrower's debt-to-income ratio, length of time at one job and the like. As with credit card lending, information about past performance on similar types of loans is weighted, so a missed Nissan payment might be more important than an overdue Visa bill.

Why would knowing your credit score help? Mortgage experts say you can use it to improve your creditworthiness and negotiate for the best possible terms.

A mortgage is probably the single biggest transaction most people make in their lives. The traditional approach -- 'no one will tell me where I stand' -- only exacerbates the process. If you have very good or excellent credit, you know you should be qualifying for the best rate available. That won't happen, though, if the first time you look at your score is when you have the contract for your dream house in your hands and the clock to closing is already ticking. The problem is that lenders grade mortgages on a FICO score, and at the point a lender is doing that, you can't change it. If you do it three to six months ahead of time, then you have ample time.

Just about any mortgage lender will be happy to run a credit report for you -- even if you're not planning to buy a house for a year -- to get you prequalified.

Do-It Yourself Wills

Writing your own will is very dangerous. The requirements that must be met for a will to be valid vary in almost every state.

Example: A will written in New York may be unacceptable in Vermont because there weren't enough witness.

It the courts rule a will to be invalid, the estate will be divided up according to state law, which may be very different from the way that you want it done.

Beware of Low Credit Card Rates

In many cases, bank cards with the lowest rates (11%-14%) can cost much more than cards with traditional 18% -21% charges. A growing number of banks begin tacking on interest charges the minute a transaction is posted to their books. This interest charge accrues until the charge amount and the interest are paid in full.

Even if you pay your charges off as soon as you receive the bill each month, you'll still have to pay an interest charge. Solution: If you pay in full whenever you use a credit card, choose a bank that charges interest only on balances that are still outstanding following the payment due date on the bill.

Q & A

How can I keep from triggering an IRS audit?

Understand the law as it applies to you and keep good records. If you've done that, you've audit proofed your tax return. Deductions for home office expenses are notorious for getting flagged because so many taxpayers get the rules wrong. People also have to be careful with the capital gains distribution from their mutual funds. A lot of people don't understand how to report these properly.

If I pay my daughter a regular allowance in exchange for doing chores around the house, can she use that money to start a Roth IRA?

No. While it's legal to hire a child to do a specific job in your home, an allowance likely won't pass muster with the IRS. There's a fundamental difference between, say, a domestic employee who regularly cleans your house from top to bottom and a child who is asked to make his bed and tidy his room.

Income from a steady job such as baby-sitting or lawn mowing does count as earned income. But it's better if your child does work like that for neighbor families rather than for your own. In any case, it's critical for kids to keep meticulous work records if they're not getting a W-2.

Monitoring kids IRAs may not be a high priority for the IRS. But if your child's account doesn't meet the legal criteria, money you put into it is considered an excess contribution. You can incur a penalty of 6% a year on that money and any earnings on it as long as it remains in the account.

ODDs & Ends

INVESTMENT TIP

Consider setting up a separate IRA for each heir to maximize the accounts' value to your family. If you have one IRA with multiple beneficiaries, required payouts are determined by the age of the oldest person. That means more must be paid out each year, with less left to keep growing tax-free. But if you set up separate accounts-each with only one beneficiary-younger beneficiaries, such as grandchildren, can stretch out withdrawals much longer. Caution: Calculations can be complex-be sure to consult a financial adviser.

TERM INSURANCE CAUTION

A trap: Buying term insurance and investing what you would otherwise spend for a policy with cash value. Most people don't actually invest the difference. They buy things instead. If you have the discipline to invest the savings, it makes sense to buy term insurance. If you do not have the discipline to invest what you save, cash-value insurance can still be a good choice. Key: Take into account the tax-deferred status of money invested in insurance policies when deciding if you will come out ahead by investing on your own.

USEFUL WEB SITE

This web site calculates just about everything – retirement benefits, car prices, mortgage payments, foreign currency exchange, even how much wallpaper to buy. www–sci.lib.uci.edu/HSG/RefCalculators.html

"Buying stocks on-line will cost you eight dollars. Plus $2000 for a computer, $500 for a computer desk and chair, $200 a year for internet service, $1500 a year for carpel tunnel treatments..."

"Wealth stays with us a little moment if at all; only our characters are steadfast, not our gold."

--- Euripides

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Investments, taxes, insurance, estate planning: the list of financial concerns and considerations facing you today is seemingly endless. And there are no easy answers.

I am in the business of helping my clients meet all their financial challenges. I do this by using a total wealth management approach. Each area is important individually, but managing them all collectively is one of the most important considerations in your overall financial success.

My approach can help you invest conservatively, reduce your exposure to taxes, meet your insurance needs and provides a plan to successfully transfer your wealth to your children and grandchildren.

If this method of meeting your financial needs sounds appealing, I welcome the opportunity to hear from you. If you have questions about your financial situation, please do not hesitate to call or e-mail me.

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