



Your Bottom Line

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Warren Mackensen

New Credit Card Rules Set to Take Effect

In February 2010, new regulations regarding how credit card issuers deal with their customers will go into effect. If you have had any lines of revolving credit open over the past year, you have probably received a rate increase notice or letter informing you that your credit line has been reduced, or both. To shore up their balance sheets, banks have been aggressively reigning in these credit lines in an attempt to avoid a wave of delinquencies and write-offs.

One downside to this is that consumers who carry balances on their cards have seen their credit scores decline as a result. Recent changes to the major credit scoring system, FICO, give more weight to the ratio of outstanding balances to total credit lines than before, more severely penalizing borrowers who carry high balances on their credit lines. In many cases, banks have reduced credit lines to just above the cardholder's outstanding balance so what once was only a 50% utilization of credit is now nearly 100%. Declining FICO scores make it likely that a borrower's interest rates will increase on outstanding lines in addition to making new credit difficult to obtain.

For consumers who carry balances month to month, there is some good news in the credit card reform bill. Here is a summary of the provisions:

Restrictions on rate increases

Interest rate hikes on existing balances will be allowed only under limited conditions, such as when a promotional rate ends, the card carries a variable rate or if late payments are made. Rates on new purchases cannot be increased until after the first year. Finally, the law would eliminate the practice of penalizing customers with higher rates based on their payment history with other creditors, commonly referred to as universal default.

Additional time to pay

A second provision seeks to minimize late fees for cardholders by requiring issuers to provide a reasonable amount of time to pay their monthly bill. With the new law in effect, due dates for payments cannot be less than 21 days from the time the bill is mailed. Early morning or other arbitrary deadlines for payments will also be eliminated as cutoff times earlier than 5:00 p.m. on the payment date will be illegal.

Highest interest balances paid first

For consumers who have used their card for balance transfers to take advantage of promotional rates, in addition to regular purchases, the new law will help save on interest charges and get these balances paid off faster. The current practice of card issuers is to apply payments to the lower rate balances first, leaving balances at higher rates to accrue more interest. The new law requires that

payments in excess of the minimum be applied to higher rate balances first.

Over-limit fees

Consumers will be able to avoid over-limit fees by requiring them to opt-in to allowing the card company to accept transactions that would put their account balance over the maximum credit line. For cardholders who do not opt-in, these transactions will be rejected and late fees avoided.

Double-cycle billing

Double-cycle billing, or computing the average daily balance on which finance charges apply based on two months instead of just the current billing cycle, is no longer allowed under the new law. Double-cycle billing puts cardholders who pay their cards in full at a disadvantage because interest accrues on charges made in prior months that have already been paid-off.

Disclosure about consequences of making minimum payments

Finally, the new rules will give consumers better information about the cost of their credit and how balances can be paid-off more quickly. Statements will now provide a calculation of how long it will take to pay off the entire balance making only the minimum payment. In addition, the payment required to payoff the balance in 12, 24, or 36 months, with associated interest cost for these payment plans, must also be provided. ❖



David A. Batchelder

Analyzing the Gold Rush . . .

On December 3rd, the price of gold hit a record at \$1,226.56 per ounce. No doubt, concerns about the dollar, government deficits and inflation have increased gold's attractiveness to investors in recent months. Gold is commonly considered to be a natural hedge against inflation.

Although gold has provided good returns in recent years, the longer history of gold prices suggests that now may not be the best time to be adding a lot of gold to your portfolio. Looking back to the last gold price peak in 1980, when an ounce of the metal traded for a mere \$850, investors who bought and held gold would have realized a 44% return on their holdings. The same investment in the S & P 500 would have returned 2,182%, including dividends, according to data from Bloomberg. After accounting for the effects of inflation, the gold investor is still holding a losing position, needing another 79% increase in gold prices just to break even.

Gold prices may continue their upward climb, but it is also possible that adding large amounts of the metal to a portfolio at this point means buying at or near another peak. We believe a better approach is to use a diversified basket of commodities, including gold, along with other inflation fighting tools, to help mitigate the ravages of inflation. The diversification historically provided by gold and other commodities, when used in small amounts in a portfolio, can help dampen short-run fluctuations in traditional stock and bond portfolios. ❖



David T. Mayes

New FAFSA and Tax Breaks Ease College Burden for Parents

For parents of college-age children, the process of applying for financial aid each year using the Department of Education's Free Application for Federal Student Aid can be an intimidating and time-consuming task. Thankfully, for the coming filing season, the government has made some significant improvements that will simplify the process for parents. This, along with some improved tax breaks for tuition and fees may add up to a more pleasant college experience, at least for parents.

For the 2010-2011 school-year the web-based FAFSA form will shorten the application process by automatically skipping questions that do not apply to your student's and family's circumstances. Completing the FAFSA can be a confusing exercise because the form asks for asset and income information for both the student and parents. To reduce this confusion, the new web-based FAFSA now provides better instructions and prompts based on information you provide, along with better identification of which sections apply to students and which apply to parents. You can find the online FAFSA application at www.fafsa.ed.gov.

With the cost of a four-year degree now running at about \$75,000 at a public university (in-state tuition rates), having a bit of a tax break to offset what financial aid does not cover would be nice. For 2009 and 2010, there is a new tax credit available – the American Opportunity Credit – which was passed as part of the stimulus package last spring. This credit, an

expanded version of the existing Hope Credit, applies to all four years of college instead of just two and carries higher income limits. You can qualify for the new credit as long as your income is less than \$180,000 for married couples (\$90,000 for single taxpayers).

This tax credit is more valuable than the \$4,000 tuition and fees deduction also available to offset college costs. The credit amounts to a dollar-for-dollar reduction in your tax due and is partially refundable. The maximum credit amount is \$2,500, calculated as 100% of the first \$2,000 paid for tuition, fees, and course materials, plus 25% of the next \$2,000. If the credit amount exceeds your tax liability, up to \$1,000 can be paid to you as a refund.

If you have family members or friends who need assistance with college planning, please contact our office. Our Certified Financial Planner™ professionals can provide guidance in designing a savings plan, taking advantage of available tax breaks, as well as assistance in completing the FAFSA application. ❖

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