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Financial Briefs

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10 Steps to Control Your Debt

Are you buried under a mountain of debt? If so, you're not alone. Here are some steps you can take:

Step 1: Stop adding to your debt. Instead of using credit cards or writing more checks from a home-equity line of credit, pay for everything with cash. If you can't afford to pay cash, don't buy. If there's too much month at the end of your pay, cut out spending on such things as eating out, entertainment, gadgets, snacks, and anything else you don't absolutely need to get through your day.

Step 2: Take inventory. People who get into credit trouble often don't know how much debt they have. Make a list of every loan and credit card in your household, and write down the balance, minimum monthly payment, and interest rate.

Step 3: Ask for lower rates. It's not unusual for people who are overburdened by debt but have otherwise sound credit histories to secure a lower interest rate from a lender just by asking. If you just received a credit card offer in the mail with a lower rate than you're paying, call your card issuer and ask them what they can do to keep your business.

Step 4: Get out of any high-cost vehicles. If your car payment is too high, consider trading in your vehicle for a less expensive one.

Step 5: Make more than the minimum payments. In most cases, making only the minimum payments on your revolving debt will keep you mired under a heavy burden for a long, long time. Increasing the amount you pay each month toward those debts will get you out from under them more quickly. The

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Interest Rates and Debt

In simple terms, an interest rate is the cost of borrowing money. Understanding interest rates and how they work is essential to making smart financial decisions and obtaining debt.

Interest Rate Basics

An interest rate is the amount a borrower (or debtor) is charged by a lender (or creditor) to borrow money. It is usually expressed as a percentage of principal.

By charging interest, a lender is compensated for lending you money. By paying a certain amount of interest every time you make a payment, you also help to lessen the financial blow to the lender if you default on (or fail to pay back) the loan.

How Interest Rates Are Determined

A variety of factors influence interest rates. Some are macroeconomic, or related to broad economic trends. In the U.S., the Federal Reserve (the country's central bank) sets what is called the Fed funds rate, which is the amount banks charge each other for certain types of loans.

The Fed funds rate, in turn, influences other interest rates, including the prime rate — the interest rate a bank charges its best (or least risky) customers. The prime rate then influences other consumer interest rates, such as those for cars, credit cards, and mortgages. The Fed uses its ability to set interest rates to influence the broader economy, lowering interest rates to stimulate growth or raising them to combat inflation.

Of course, broad economic trends aren't the only factors that affect what interest rate you're charged. A lender will also look at your overall creditworthiness and then tweak the interest rate you are offered based on how risky the lender believes it is to loan you money. If you have defaulted on debts in the past and have little income, a lender may only offer you

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more you can put toward paying down the debt, the better.

Step 6: Target the highest interest-rate debts first. If you can, transfer balances from high-interest accounts to lower-interest accounts. Then pay off the card with the highest rate as quickly as you can. As each card or account is paid off, focus on the one with the next-highest rate.

Step 7: Pay on time. Most credit cards charge hefty extra fees for paying late. Worse, late payments trigger higher interest rates, which can make your efforts to pay off your debt even more difficult. If you can, automate your monthly credit card payments so they come out of your checking account each month on the due date.

Step 8: Refinance your mortgage. If you have the opportunity to refinance your current mortgage to a lower rate, it may be worthwhile — as long as you use that extra cash each month to pay off your other debts.

If you have enough equity in your home, consider a debt consolidation loan. Mortgage interest rates are typically much lower than credit card rates, and mortgage interest is tax deductible. So if you can roll your credit card debts into your mortgage, you'll have an easier time getting out from under that burden. Take care, though, to avoid overleveraging your home's equity.

Step 9: Negotiate with your creditors. Your creditors would rather you pay as much as you can to satisfy your obligations, even if it's less than 100 cents on the dollar, rather than see you walk away entirely.

Step 10: Seek help. Perhaps this should be the first step. Getting out of debt — especially if you feel buried by it — can be an overwhelming experience. Please call if you'd like to discuss this in more detail.

Paying Off Your Mortgage

There are advantages and disadvantages to paying off your mortgage. On the positive side, any extra money sent with your mortgage payment is applied to the outstanding principal, which can significantly reduce your total interest cost. This reduces your interest expense deduction on your tax return, but you are paying most of the cost anyway. For instance, if you're in the 24% tax bracket, you save 24 cents in taxes for every dollar of interest, but you're still paying the remaining 76 cents.

When paying down principal, you are effectively earning a pretax return equal to your mortgage interest rate, which is a guaranteed return with no risk. Most mortgages allow you to add as much to the payment as you like, whenever you like, making it an easy way to use excess funds. However, check with your specific lender to determine if prepayment penalties apply.

On the other hand, instead of prepaying your mortgage, you might want to put additional funds toward investments with the potential to earn higher returns. Also, once you make the additional mortgage payments, the only way to access that money is to sell your home or take out a home-equity loan, usually at a higher rate.

Consider the following factors before prepaying your mortgage:

- **Are all components of your financial plan in place?** Before prepaying your mortgage, make provisions for things like disability insurance, life insurance, and an emergency fund.
- **Is all your consumer debt paid off?** Consumer debt typically carries higher interest rates than your mortgage rate, and interest payments are not typically tax deductible, unless it's a home-equity loan. Thus, you should probably pay off your consumer debt in full before making additional payments on your mortgage.
- **Are you maximizing contributions to qualified retirement plans?** Make sure you are contributing the maximum to your 401(k) plan, especially if your employer matches funds, or are fully funding other qualified plans and individual retirement accounts.
- **Have you investigated investment alternatives?** Look into other investments whose potential returns may exceed the return from prepaying your mortgage. However, make sure you actually act on those investments. You don't want to just spend money that could have gone toward your mortgage.
- **Are you nearing retirement?** The idea of entering retirement with no debts may make prepaying your mortgage a more attractive alternative. Or you may like the certainty of positive returns that comes from prepaying your mortgage.

If you decide to prepay your mortgage, consider these strategies:

- Switch from a 30-year to a 15-year mortgage. By paying the mortgage off 15 years sooner, you save a significant amount of interest.
- Pay half your mortgage payment every two weeks. Over the course of a year, that equals 26 payments or 13 monthly installments. Check with your lender to make sure this option is offered.
- Add additional amounts to your monthly mortgage payment. This option is the most flexible since you decide on a monthly basis how much to add to your payment.

Please call if you'd like help deciding whether you should prepay your mortgage.

Interest Rates and Debt

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a loan at a very high rate or even decline to loan you money at all, because it fears there's a good chance you won't pay the money back. On the other hand, if you've always paid your debts promptly and have a good income, you may get a lower rate.

Finally, the interest rate you're charged depends on the type of loan you want. One reason mortgage loans tend to have lower interest rates is because they are secured loans, meaning you promise an asset as collateral when you get the loan.

If you fail to make payments, the lender has the right to claim that asset (in the case of the mortgage, the house). On the other hand, credit cards tend to have high interest rates because they are unsecured loans, meaning you offer nothing as collateral in exchange. If you fail to pay your debt, the lender has fewer options for recovering what you owe.

The Cost of Borrowing Money

Whether you're borrowing a lot or a little and whether you're rich or poor, the same basic principle applies: the higher the interest rate, the more it will cost you over the long term to borrow money.

For most people, the challenge with debt and interest rates is balancing their short-term financial situation with their long-term goals. In general, it is advantageous to pay off a loan as quickly as possible no matter what the interest rate, since you'll pay less interest overall. (Occasionally, there may be some exceptions to this rule, such as if you can claim the mortgage-interest deduction.)

But if your budget is tight, the lower monthly payment that accompanies taking a longer time to pay off the loan may be worth it, despite the higher overall interest costs.

If you are not cautious, however, high interest rates and low payments can send you into a debt spiral that it is difficult to escape from. Making low payments on a high-interest debt can leave you paying as much in interest as you originally owed and sometimes more.

Are you wondering how debt and interest rates influence your overall financial plan? Please call to discuss this topic in more detail.

Credit Cards and Your Financial Plan

When it comes to financial planning, credit cards are a pretty divisive subject. Some financial experts advise to stay away from credit cards, since they make it easy to rack up debt and live beyond your means. Other people see credit cards as a useful financial tool, provided you use them responsibly and wisely.

The Argument against Credit Cards

Owing a lot of money, especially a lot of high-interest revolving debt, is bad news for your long-term financial health. Plus, owing a lot on your plastic suggests there's a disconnect between your income and your expenses. But rather than forcing you to stick to a budget and get your spending under control, credit cards allow you to spend more than you earn while delaying the consequences of that overspending.

The Argument for Credit Cards

One big advantage of using credit cards is that they allow you to build credit. Working to develop a good credit score now may help you down the road when you want to buy a house or make another major purchase.

Credit cards can also be a way to manage irregular income. If you can't count on receiving a paycheck every two weeks, but you know the money will eventually come, a credit card can help you meet daily expenses. With this strategy, it's important you pay your balance promptly, so that you don't get hit with steep interest charges and end up with a mountain of debt.

If You Use Plastic

Despite some drawbacks, credit cards are a popular tool in Americans' financial arsenal. Because online account management features make it easy to track credit card purchases, many people find that using plastic makes it easier for them to budget and track their purchases. With a few clicks, they can easily see how much they've spent in a certain category in the past weeks or months. And if you're new to budgeting, you can comb through old online statements to get a sense of how much you spend in different areas, like groceries, gas, and entertainment.

As mentioned above, credit cards can also be a valuable tool to build credit. If you're worried about controlling your spending but still want the credit-building properties, consider a secured card or one with a low credit limit so you're less likely to overspend.

Savvy consumers can also make their credit card work for them by taking advantage of points and rewards programs. The variety of credit card rewards options is immense, ranging from cash back deals to discounts on gas to frequent flyer miles and hotel points. If you are using a card to get rewards, make sure you're not carrying a balance or spending more than you normally would just to get perks. Doing either will quickly erase whatever benefits you get from using the card.

If you're not sure what role — if any -— credit cards should play in your financial plan, please call. We can help you understand the pros and cons of credit and how it can help or hurt your attempts to reach your long-term financial goals.

Business Data

Indicator	Month-end Oct-19	Nov-19	Dec-19	Dec-18	Dec-17
Prime rate	4.75	4.75	4.75	5.50	4.50
3-month T-bill yield	1.62	1.56	1.52	2.47	1.45
10-year T-note yield	1.69	1.78	1.92	2.89	2.46
20-year T-bond yield	2.00	2.07	2.25	3.03	2.66
Dow Jones Corp.	2.90	2.85	2.84	4.40	3.13
GDP (adj. annual rate)#	+3.10	+2.00	+2.10	+2.20	+2.90

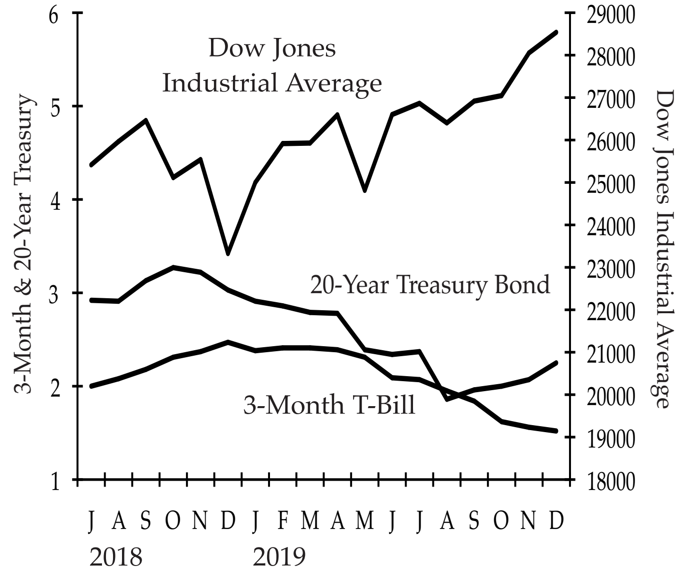
Indicator	Month-end Oct-19	Nov-19	Dec-19	% Change 2019	2018
Dow Jones Industrials	27046.23	28051.41	28538.44	22.3%	-5.6%
Standard & Poor's 500	3037.56	3140.98	3230.78	28.9%	-6.2%
Nasdaq Composite	8292.36	8665.47	8972.60	35.2%	-3.9%
Gold	1510.95	1460.15	1523.00	18.8%	-1.1%
Unemployment rate@	3.50	3.60	3.50	-5.4%	-9.8%
Consumer price index@	256.76	257.35	257.21	2.1%	2.2%

— 1st, 2nd, 3rd quarter @ — Sep, Oct, Nov Sources: *Barron's, Wall Street Journal*

Past performance is not a guarantee of future results.

18-Month Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

July 2018 to December 2019



News and Announcements

Deciding on a Mortgage Term

When considering mortgage options, most homeowners debate whether to obtain a 15-year or 30-year mortgage. However, lenders offer other terms, such as 10, 20, 25, or even 40 years. Even after obtaining a mortgage, you can typically lower the term by paying additional principal with your mortgage payment. So how do you go about deciding which is the best term for you?

There are three basic factors you should consider:

- Since each term will have a different interest rate, you should review the rates for different mortgage terms. In general, shorter mortgage terms will have lower interest rates.
- Consider the monthly mortgage payment, which will depend on your down payment, mortgage term, and interest rate. Longer mortgage terms have lower mortgage payments. Keep in mind, however, that your equity will build slower with longer-term mortgages. Monthly payments for 15-year loans are typically 15% to 25% higher than 30-year loans, but your interest costs are typically half since your interest rate is lower and the mortgage is paid off so much sooner.
- Your final consideration should be your financial plans. You want to select a mortgage term with a comfortable mortgage payment that will ensure you have money left over to save for other financial goals.

One flexible option is to select a longer mortgage term, such as 30 years, and send additional principal in with your regular mortgage payment when you have the funds. Doing so can significantly decrease the term and amount of interest paid. However, you aren't committed to making the additional payments, which gives you financial flexibility.

Please call if you'd like to discuss your options in more detail.

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