

# Your Money

A quarterly publication for members of the Rohm and Haas Employees Federal Credit Union

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## A Note from the President

Since you will be receiving this in mid-January, you probably already know that we have changed our operating software. Those of you who use the **Audio Response** and **Internet Banking** products will have noticed a difference. This is the last statement you will receive in the current format. Your next statement will have a completely different look. I would like to thank our members for your patience and understanding while we went through the conversion process. We expect to be better able to serve you with our new software and products. **Have a Happy New Year.**

*Jack De Waile*

## Auto Dealer 'Extras' Cost Less at the Credit Union

Pay attention to what auto dealerships are charging for GAP (*guaranteed asset protection*) insurance. GAP insurance covers the difference between what a consumer owes a lender and what an auto insurer will pay if a car is totaled or stolen shortly after it's purchased. The Credit Union offers this product, often at a substantially lower cost.

## HIGH LOAN-TO-VALUE LOAN: *FRIEND OR FOE?*

A high loan-to-value (*HLTV*) mortgage or home equity loan is one that equals or exceeds the value of a borrower's home—sometimes reaching as high as **125% to 150%**. Some lenders market this type of loan toward people who have run up considerable credit card and other consumer debts because it can consolidate outstanding debt and lower borrowing costs.

In exchange for offering their home as collateral, borrowers are charged lower interest rates than they would pay on unsecured consumer loans. Lower interest rates coupled with long maturities

(*up to 30 years*) make monthly payments attractive, because they often are less than the monthly payments of the loans paid off in consolidation.

Still, there are potentially serious drawbacks. Many borrowers think HLTV loans are mortgage loans and accordingly believe interest payments are tax-deductible. **But Internal Revenue Service rules prohibit interest deduction on any part of a mortgage that exceeds the market value of the house.**

Lenders place emphasis in underwriting for HLTV loans on the borrower's credit quality as opposed to collateral value. For example, lenders evaluate applicants on credit scores, financial stability, and ability to

handle payments. They are enacting new lending guidelines and increasing credit score requirements to ensure that HLTV loans perform successfully and to weed out risky borrowers.

When managed properly, HLTV loans are safe and profitable for the lender. The biggest disadvantage of converting unsecured credit card and consumer debt to an HLTV loan is that **in case of default, the borrower could lose his or her home.** Still, many people burdened by the high cost of unsecured consumer debt are willing to take the risk in order to lessen their monthly payments. If you're in that situation, talk to a loan officer at the Credit Union for information about safe options.

# Sorting Out Your IRA Options

Here are general guidelines to help you decide which IRA is right for you:

- **If you're eligible to contribute to a Roth IRA and also to make tax-deductible contributions to a traditional IRA:** Assuming you would contribute the same amount to either type of IRA, your decision depends on what you'd do with your tax savings if you make tax-deductible contributions to a traditional IRA. Your decision also depends on your projected tax bracket in retirement.

For example, if you contribute \$4,000 a year to a traditional IRA and you're in the 25% federal income tax bracket, your tax bill would be reduced by \$1,000. Would you take this amount from your tax refund or from savings and invest it in a taxable account for retirement each year?

If you invest this savings and add it to your traditional IRA, and you project that your income tax bracket in retirement will significantly decrease, you would have more after taxes at retirement with a traditional IRA than a Roth IRA. Why? You're sheltering current income from a higher tax rate now and making withdrawals later at a lower tax rate.

Even if you'd invest this savings, but you project your income tax bracket in retirement will stay the same, fall only slightly, or increase, you'll have more after taxes with a Roth than a traditional IRA.

Similarly, if you wouldn't invest this savings, you'll have more after taxes at retirement with a Roth IRA. That's because you spent all your up-front tax savings from your traditional IRA contributions, so that money is not part of your retirement fund.

- **If you're not eligible to make tax-deductible contributions to a traditional IRA but you're eligible to contribute to a Roth IRA:** You'll have more after taxes at retirement if you contribute to a tax-free Roth IRA rather than making nondeductible contributions to a tax-deferred traditional IRA.
- **If you're only eligible to make non-deductible contributions to a traditional IRA:** Whether this type of IRA contribution is right for you depends on what types of investments you'll make and other available retirement savings options.

## Certificates of Deposit

Certificate	APR (Annual Percentage Rate)	APY (Annual Percentage Yield)
6 month	1.10	1.10
9 month	1.20	1.20
12 month	1.35	1.35
30 month	2.00	2.02
60 month	3.00	3.04

## Money Market Account Rates

APR (Annual Percentage Rate)	APY (Annual Percentage Yield)
1.00	1.00

## Share Account Rates

APR (Annual Percentage Rate)	APY (Annual Percentage Yield)
0.50	0.50

Rates are subject to change in response to market conditions.

## WE LOVE OUR DEBIT CARDS

They look like credit cards, but when consumers make purchases using debit cards, the dollar amounts are deducted from their checking accounts.

*Why are people reaching for their debit cards in record numbers?*

- **Convenience**—It's quicker to pull out a plastic card at the point-of-sale than to write a check. It's also easier to track spending with cards than with cash—and using plastic eliminates the need to even carry cash. According to a MasterCard survey, consumers rate convenience as debit's primary advantage.
- **Pay-as-you-go**—With debit, you have the convenience of plastic without carrying a loan balance or paying interest.
- **Balance caps**—Because debit cardholders can only spend the money they have in their checking accounts, debit cards help control spending.
- **Security**—Security features built into debit cards help merchants verify that the actual cardholder is the one using the card.
- **Zero liability**—MasterCard and Visa debit card users have zero liability for any unauthorized use of their cards—a fact that many consumers don't realize. If your card is lost or stolen, you simply report it and close the account. You don't pay for any transactions you didn't make.
- **Cash back**—If you use your PIN (*personal identification number*) for a debit card transaction rather than signing a receipt, you can request cash back at many merchant locations. The merchant will add the cash amount to your transaction total.
- **Wide acceptance**—Debit cards are accepted at locations worldwide, while many merchants are reluctant to accept non-local checks.

## Loan Interest Rebates

The Board of Directors declared an interest refund on all real estate secured loans paid up to date at the end of December—the refund reduces the effective rate to 6% for the fourth quarter of 2004.



Look for other information related to your credit union's services on our web page: <http://www.rhcu.com>

