

How are your insurance and investment client's doing in the area of consumer debt?

Your client with a monthly debt obligation of \$3,185 will need a lump sum amount of \$477,750 to service the debt! Is your life insurance coverage enough to handle this or will they have enough in their retirement account to make ends meet? They are counting on you!

One Late Credit Card Payment Can Doom You

Credit card companies and insurers are looking for reasons to increase rates. A single late payment charge could ripple through all your unrelated accounts.

Mind those bills. All of them. A late payment on one account could cost you higher rates and fees on all your accounts -- through all your unrelated accounts. More and more companies are peeking at credit reports regularly to justify raising interest rates or increasing credit limits.

Some of the biggest credit-card companies have started aggressively penalizing customers who show signs of trouble anywhere in their credit reports. If a company likes what it sees in a customer's credit report, a cardholder might be rewarded with a thicker credit line. But one black mark from your Citibank credit card could shoot up.

So if you fall behind on your Sears bill, the interest rate on your Citibank credit card could shoot up.

A justification for hiking rates
"Why should that matter?" asks Howard Strong, author of "What Every Credit Card User Needs to Know." "It doesn't harm them in any way. It's ridiculous. It's just a way to knock up rates."

The lenders say their concerns are justified. "We're looking at risk factors. If we see someone become delinquent with another creditor, that may be an indicator that they are about to become delinquent with us," says Maria Mendler, a spokeswoman for Citibank. "We may need to adjust our credit decisions accordingly."

Credit counselors say many people feel blindsided by the credit-card companies' rate increases -- especially if they haven't been late with any payments.

"I'm hearing about it more and more," says Hal Prather, a branch manager at Consumer Credit Counseling Service in Norcross, Ga. "It's apparent to me that most people don't read the inserts (that come with their statements). I think people learn about it the hard way."

Mike Kidwell, vice president of the nonprofit debt crisis center Myvesta, adds, "We get calls and e-mails all the time. I've never been late on this card. Why is my rate going up? Or I had trouble with one account and my rates went up on another card."

"You've got to be aware of limits on credit cards. If other creditors are seeing balances going up and all of a sudden you're considered a greater risk. Not just with the one creditor that you paid late, but with all your creditors."

The credit/auto connection
Does having bad credit make you a bad driver? Some auto insurers think so. That's why they're using credit data to help determine your insurance rates.

Ninety-two of the 100 largest personal auto insurance companies in the country use credit data in underwriting new business, according to a study by Conning & Co., an insurance research and asset management firm.

It's not as wacky as it sounds. There does appear to be a connection between your credit record and the likelihood of you filing an auto insurance claim.

Drivers at the bottom of the credit heap file 40% more claims than drivers at the top of the credit heap, according to a study by the Insurance Information Institute.

Consequently, having black marks on your credit report could really bump up your auto insurance rates.

"A consumer with bad credit is going to pay 20% to 50% more in auto insurance premiums than a person who has good credit," says Clarence Smith, assistant vice-president at Conning & Co.

Who's watching
Some credit-card companies review customers' credit reports more often than others. "Some may do it monthly. Some may do it quarterly. Some may do it yearly," says Marie Edmunds Zakas, corporate vice

No Interest - No Payment for 6 Months?
Look at the Finance Charge!
Watch these deals closely!

The screenshot shows a credit card statement with the following key information:

- Account:** CARD # 1234 5678 9010 1112
- Current Balance:** \$1,234.56
- Next Closing Date:** APRIL 15, 2004
- Finance Charge:** \$1,234.56
- Annual Percentage Rate:** 100.91%

The finance charge section is highlighted, showing a rate of 100.91% and a charge of \$1,234.56. Red arrows point to these figures.

Annual Percentage Rate
100.91%

NOW THAT THE GREAT SUBPRIME boom is over, it seems odd for a mortgage bank like New Century Financial to be leading more than ever. But this Irvine, Calif., institution doesn't lead to just anyone. Its customers are so hard on bills they have no choice but to top the value of their homes to pay them off -- whether or not rates are rising.

"If your home keeps appreciating, why not use the equity?" says New Century Chief Executive Robert Gale. Investors agree, pushing up shares of New Century and other so-called subprime lenders like Nation Capital and Newmar Financial to more than double their levels a year ago. Subprime loans are generally ones with a scary debt-to-income ratio or a trail of delinquencies --

pected ways. This particular breed of delinquents will continue to borrow against the value of their homes even as interest rates rise. That's because the rates on their credit card bills will always be higher, and they have previous links cash to pay them off.

Translation: Desperate delinquents will help cushion the blow from most other serial refinancers, who have stopped using their homes as personal ATMs.

If New Century customers are any guide, these subprime borrowers are worthy of their name. New Century's borrowers, some targeting just adjustable-rate mortgages, now have an average accumulated \$20,000 in unsecured debt. Their home equity is only 10%. But the average American household has nothing to brag about either.

One nightmare scenario is what industry insiders call "payment shock," which doesn't require any great drop in home prices. Thanks to all those popular adjustable-rate loans, whose rates typically float after one or two years, homeowners face the possibility their interest payments may be even if their home values don't. And then borrowers are so strong and that even a one percentage point rise in mortgage rates could be enough to make it impossible to meet debt payments, pushing some into default.

New Century says it picks mostly the cream of the subprime crop and that it is confident its loans will be paid back. But it has hedged itself against things going wrong. After having to write down loans

Till Debt Do Us Part

America's steamy affair with credit has kept the economy growing. Time for a cold shower?
BY BERNARD CONDON

took over \$350 billion or so in mortgage loans, or 10% of total new mortgage loans. The demand is not expected to fade this year.

With an strong and interest rates are low, so it's easy to get caught up in the promise of a recovering economy. But there are those nagging doubts, like consumers' addiction to borrowing. Consumer debt hit an all-time high of \$2.9 trillion in November, up 41% in five years. A record 1.6 million households filed for bankruptcy last year. And jobs needed to keep up all the red ink are still scarce, with only 1,800 generated in December.

The subprime borrower argues: Don't worry. In fact, they say, the increasing hope is a blessing to the economy, helping to extend that most critical of economic stimulants, the consumer buying spree. Douglas Duncan, chief economist of the Mortgage Bankers Association, says the impact that subprime refinancers have on the economy is often underestimated because they act in unexpected ways. This particular breed of delinquents will continue to borrow against the value of their homes even as interest rates rise. That's because the rates on their credit card bills will always be higher, and they have previous links cash to pay them off.

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The typical American mortgage holder has \$4,400 worth of unsecured debt, and his equity has fallen to 54% from 70% two decades ago.

Even if you've convinced those borrowers are good risks, you still have to wonder about the value of the loans backing their loans. Morgan Stanley's investment analyst Brian Baskin's assessment of cash from overvalued assets such as houses, to quote his recent report, titled "Liber Recovery," "has been bellyaching about a housing bubble for years now, and he's still fighting the tide. The same week of his latest report, JP Morgan Chase announced it was paying \$30 billion for credit card giant Bank One to increase its exposure to the mighty American consumer. Why listen to a man to blather when the big money is seeing the opposite?"

"All I hear is 'bubble this,' 'bubble that,'" fumes Chris Bradley, a Citicorp Securities analyst who thinks New Century stock should be trading a fifth

In 2000, it decided not to keep most of its future loans on the books for long. So it started selling a lot of loans to Morgan Stanley and other investment banks. These buyers, paying \$1.04 more per \$1 of loans, often don't hold on to the loans, either. They bundle the loans into securities and sell them to investors and other big fixed-income buyers for an even richer price.

Why such hot demand? With Fed funds rates at a 4½-year low, where also can fixed-income investors get yields of 8% to 10% (underwater)?

Richard Eckert of investment bank Bear Stearns & Co. is a New Century bull, but even he's worried. He says that rising interest rates will eventually take a lot of those borrowers by surprise, leading to foreclosures.

"At some point they won't be able to refinance again, and that will set off a domino effect," he says. "More and more loans will go bad, lenders will pull back, and the consumer won't spend as much."

We've got the answer!



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