

# The Chalk BOARD

April 2011

## Three ways to spring-clean your finances

As the days grow longer and lighter, you may feel an urge to fling open the doors and windows and clean the house from top to bottom. But if it's too soon for balmy breezes, why not use the time to spring-clean your finances? Here are three ways to start:

### 1. Scrub your credit report.

Many people don't learn their identity's been stolen until they discover a strange loan on their credit report. Even if a wrong entry is just a mistake, it may still cost you the best deal on a loan, car insurance, apartment, or even a job. You're entitled to one free credit report a year from each of the big three credit reporting agencies. If you order one agency's report now, the second on the Fourth of July, and the third around Thanksgiving, you'll be able to spot problems in a timely way. To order reports, call 1-877-322-8228 toll-free, or visit [www.annualcreditreport.com](http://www.annualcreditreport.com).

### 2. Shake out outdated beneficiary names.

As time goes on, your designated heirs may marry, change their names, have children, or pass away. Dig out the account documents for your IRA, company retirement plan, life insurance, annuity, or pension to see if any beneficiaries need to be updated. Changes are often easy to make with an online firm, or call your benefits provider.

### 3. Polish your estate plan.

A will may be all you need if your financial life is fairly simple. Do you have one? Is it up to date? Does it take into account a recent inheritance, say, or new additions to the family?

If your finances are complex enough, you've probably had an attorney draw up an estate plan for you. It's a good idea to spring-clean that plan by having the attorney review and update it for family or tax-law changes. Watch out, for example, if you're planning to pass money to your kids through a credit shelter trust funded with the current estate tax exemption amount. Since that amount has just increased to \$5 million, you'll want to make sure fully funding the trust won't deplete the estate, leaving too little for the surviving spouse to live on.

These three tasks may take a little elbow grease. But once the cleaning is done, you'll be able to kick back, relax, and enjoy better, brighter financial weather.

## Are you credit-ready?

Qualifying for mortgages and other loans became tougher during the recession. It's not about to get easier in 2011, but there's still plenty of opportunity for customers with good credit. If you expect to buy or build a new home, purchase a car, or need any other kind of financing this year, it's a good idea to take these steps to improve your chances of approval:

1. **Provide a larger down payment or more collateral.** The best interest rates are being reserved for borrowers who provide a 20% down payment. The advantage is so great, in fact, that "cash-in" refinancing has become popular, with refinancers contributing extra cash to lower the interest rate on the new mortgage. On other kinds of loans, it may be possible to put up extra collateral to overcome a low credit score.
2. **Don't bite off more than you can chew.** It's going to be difficult to borrow more than you can easily afford to repay. To get an estimate of your price range, ask us to prequalify you for the type of loan you want.
3. **Reduce your debt.** The lending decision considers your total debt (including the new loan payment) as a proportion of your gross monthly income. Like other mortgage lenders, we prefer to see a debt-to-income (DTI) ratio of 36% or less. You may qualify for certain loan programs with a higher DTI, but consider paying off some debt with savings in order to gain access to the best rates.
4. **Check your credit report for errors or omissions.** You can order a free credit report once a year from each of the three national credit agencies (visit [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 1-877-322-8228). The information in these reports is distilled into a credit score, another important factor in the loan decision. Five years ago, 20% of homes were sold to buyers with a FICO credit



# Planning a Summer Vacation? Join the Club

Vacations are a time to relax and unwind from day-to-day stress. The last thing you want to do is spend your vacation worrying about how you are going to pay for it when the bills come. The two easiest ways to lessen the financial sting of vacations are to save before you go, and plan how much to spend while you're away. STCU Credit Union has club accounts for you to set aside money for a specific purpose, in this case, a trip.

The easiest way to contribute to a club account is by having money direct deposited into that account weekly. Estimate how much your vacation will cost; don't forget to factor in airfare, car expenses (gas or car rentals), hotels, meals, entertainment and extra spending money. Once you have figured out how much your vacation will cost, you can decide how much you are willing to charge to a credit card, and how much cash you will need for your trip. Putting this money into a club account eliminates the temptation to make a big purchase as you see your balance creeping up.

So here are some easy tips to help you plan for your next vacation:

- Tape a picture of your dream vacation to your fridge.
- Estimate how much the vacation will cost.
- Subtract how much of the vacation expenses you want to charge on your credit cards.
- The difference is how much cash you'll need for your trip. Divide that amount by the number of paychecks you'll receive before you go on vacation. That is how much you need to save per paycheck.

It's as easy as that. Now... you can relax and go back to dreaming of white, sandy beaches, palm trees, and a stress-free vacation.



## Which savings goal should you fund first?

How should you allocate your hard-earned savings? Emergency fund? College? Retirement? Vacation?

Everyone's situation is different, depending on such factors as whether you own a home, have a pension, are new in your job, and so on. But your financial and family situation may offer some general pointers about where best to steer your savings:

**Single income, no kids, no savings:** Run, don't walk, to build up an emergency cash reserve – unless you want to move home with Mom and Dad after the first financial setback. Once you've stashed away enough to cover six months' worth of living expenses, consider dividing your savings between retirement and a personal goal.

**Single income with kids, no savings:** It may seem impossible to save, but you'll feel amazingly more secure if you can put away even tiny sums. Can you live on five dollars less a week? Ten dollars? Fifteen? Ask us to transfer this amount automatically into an IRA for you. Emergency funds are too easily raided for non-emergencies, and funding your IRA is more important than saving for college. There are no scholarships in retirement.

**Single income with savings:** Once you have enough emergency cash to handle a job loss, set up automatic deductions to fund an IRA (\$5,000 a year, or \$6,000 if you're 50 or older) or to earn the maximum matching funds in your company retirement plan. Put whatever else you can save toward a personal goal.

**Two incomes, no kids, no savings:** Consider putting half your savings toward retirement, the other half into an emergency fund capable of paying the higher-paid partner's share of expenses for six to eight months. Once this cash reserve is fully funded, redirect that part of your savings to a key personal goal.

**Two incomes with kids, no savings:** You face the most challenges and choices – a good reason to consult a fee-only financial advisor who can recommend how to allocate your resources. An emergency reserve and retirement are both important goals, with college farther down on the list.

**Two incomes with savings:** Even if your goals already seem well-funded, consider having a fee-only advisor review and comment on your financial situation. There may be a need to modify your savings targets, or ways to allocate your assets more productively.

If you need to boost your savings, there's no better place to start than here. Our options include savings accounts, CDs, money market accounts, and of course, tax-favored IRAs – all with interest rates that exceed what you'll find at most banks. Give us a call, visit us online at [www.stcu.com](http://www.stcu.com) or stop in one of our branches soon.

The advertisement features a man in a white t-shirt working on a roof with a hammer. The background is a blurred outdoor scene. The text is in white and black. The main headline is 'Thinking about spring home improvements?'. Below that is 'Think STCU! We can help.' and 'Call or visit us online to learn more.' The STCU Credit Union logo is in the bottom right corner, with the tagline 'Your Community Credit Union-'. Below the logo are the phone numbers for Westfield (413) 562-4092 and Springfield (413) 732-9812, and the website www.stcu.com. At the bottom left are the NCUA and MSIC logos.

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score of 620 or less, according to the chief economist of real estate website Zillow. Today, he says, it takes a score of at least 720 (out of 850) to get a good loan – potentially freezing out one-third of American consumers.

Clearly, sprucing up those credit reports will be worth your while.

We'll be glad to go over your credit report with you and discuss how to improve it. So if you have questions, or would like to be prequalified for a loan, come talk to us. We're in business to serve members like you – and we're always glad to have an opportunity to say yes.

## Didn't get the best deal? Now you'll know

As of January 1, 2011, financial companies who don't give a loan applicant the best deal are required to provide one of two explanations for their decision:

- That it was based in part on data from a credit report, allowing the applicant to claim a free report from the credit-reporting agency involved, or
- That it was based in part on a credit score, which must be provided along with an interpretation of how it compares with the U.S. average, and which also allows the applicant to obtain a free credit report

Effective July 22, 2011, anyone who uses a credit score as the basis for an adverse decision (whether a turndown or a less-than-best deal) must disclose that score to the applicant. This includes insurance companies, utilities, and landlords as well as financial companies.

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E-MAIL:

Board Chairman: [chairman@stcu.com](mailto:chairman@stcu.com)

Board of Directors: [board@stcu.com](mailto:board@stcu.com)

CEO William Brothers: [wbrothers@stcu.com](mailto:wbrothers@stcu.com)

Main Branch:

145 Industry Avenue, Springfield, MA 01104

453 East Main Street, Westfield, MA 01085

1-413-732-9812 TOLL-FREE 1-877-732-9812

FAX: 1-413-737-7635

LOAN DEPARTMENT FAX: 1-413-886-0156

Website: [www.stcu.com](http://www.stcu.com)

Easy Bank: 1-413-827-8000

Outside of Hampden County Toll-Free: 1-800-264-0600

Lost/Stolen ATM/Debit Card: 1-413-732-9812

Lost/Stolen Credit Card: 1-877-875-8078

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24/7 Lending Call Center: 1-800-805-0399

The Chalk Board is a quarterly newsletter publication for the benefit of STCU members.

**Less than a dime a day**  
– keeps the worry away.

Secure your valuables with an STCU safe deposit box.

**STCU Credit Union**  
Your Community Credit Union™

NCUA MSIC

## HOLIDAY CLOSINGS

Memorial Day – Monday, May 30

Independence Day – Monday, July 4



This credit union is federally insured by the National Credit Union Administration



### STCU'S MISSION STATEMENT

*“Assist our members in reaching their financial goals by providing superior products and services in a personalized manner.”*

# 10 college aid tips you may not have thought of

You've combed the college funding websites for ideas, pursued every scholarship lead, and still worry that you won't find enough help to pay for your child's education. Come talk to us about possible solutions, which might include a tax-favored education loan or savings account. In the meantime, these tips may help make your search for aid more successful:

1. Review your finances to be sure your child is eligible for the most financial aid. (Twenty percent of a student's assets are assumed to be available for college, as are 5.6% of the parents'.) For example, consider reducing your "available" non-retirement savings by paying off debt.
2. Let the school know if help is more essential because of special circumstances, such as other siblings in college or high medical bills.
3. Ask your boss if your company offers (or would be willing to offer) a tuition assistance program for employees and their dependents.
4. Before ruling out a school because of its cost, check to see what proportion of accepted applicants are awarded financial aid, and how much. Private colleges are often more generous than public universities can afford to be.
5. If paying the whole year's tab at once is too great a financial burden, see if the college offers a tuition installment plan. This will allow you to spread out payments during the year, usually for a small fee.
6. Consider military aid such as ROTC, if available at the school.
7. Ask family members or godparents to help out. If they can't manage to give much, make a list of 25 other people who know the student well, and pitch college funding to them as an investment opportunity. In return for helping to pay for college, investors will share a small percentage of the student's income for 10 years after he or she graduates.
8. Encourage the student to be part of the solution. Contributing earnings from a summer job or participating in a work-study program are good ways to get a child invested in making the most of the college experience.
9. Consider the advantages of a gap year between high school and college. This doesn't mean working at McDonald's while living at home. It's meant to be an opportunity to learn self-reliance, street smarts, and the real-world cost of things, while broadening one's horizons. This could take the form of volunteering at a Third World clinic, teaching English to pupils in Bulgaria, or crewing on a windjammer. Students gain confidence and add dimension to their college applications, while parents get a breather to boost their savings.
10. Above all, don't borrow or withdraw money from your own retirement savings to pay for college. You'll risk a tax bill with possible penalties and reduce the chances of getting financial aid, while depriving yourself of funds you may need later to stay financially independent. With the help of grants, scholarships, loans, earnings, and a little creative thinking, your college-bound child will probably do just fine.

## Filling out FAFSA: now simpler than before

Applying for financial aid should be easier this year, thanks to a redesigned Free Application for Student Aid (FAFSA) that eliminates some confusing questions. Also, within two weeks after you file your IRS Form 1040, your tax info should be available to automatically pre-fill your FAFSA form at [www.fafsa.ed.gov/](http://www.fafsa.ed.gov/).

Still, cutbacks in federal and state funding may mean it's harder to get help paying for college or vocational training. To improve your chances of being awarded aid, don't wait till the deadline; file your FAFSA as early as possible.

For more helpful tips, visit our website at [www.stcu.com](http://www.stcu.com).

# 5 ways to make your tax refund work for you

Expecting a refund on your taxes? Lucky you! Your dad would probably say it's not logical to pay Uncle Sam too much just so you can get it back later, but it's only human to be delighted when the IRS pays you money.

What will you do with your refund? Here's what Dad might advise:

1. **Pay down your credit cards.** This could be your chance to make a big dent in that debt. If you have outstanding balances on multiple cards, don't sprinkle your refund around. Sock it all against the balance with the highest interest rate, so you can get the biggest bang for your bucks.
2. **If you have a young child, start a college fund.** Ask us about opening a Coverdell Education Savings Account. Contributions aren't deductible but they do grow tax-deferred, and withdrawals are tax-free when used for qualified education expenses. You can start with any amount, up to a maximum of \$2,000 a year per child. (Maybe your dad will help out?)
3. **Fund a Roth IRA.** You say that doesn't sound like fun? Just imagine you're ready to kick back in retirement. Would you enjoy paying as much as 36% in federal income tax on every dollar you take out of your IRA? Well, how about zero tax? Definitely more fun! If your savings are in a Roth IRA, zero is what you'll owe. We'll be glad to help you get started.
4. **Beef up your emergency fund.** You never know when a much-repaired vehicle is going to conk out. Or, heaven forbid, illness or injury could sideline you and your one-person business, or your employer might eliminate your job. The average unemployed person is out of work almost 37 weeks (8½ months), according to the U.S. Department of Labor's February 2011 report. The more savings you've put aside for such setbacks, the easier it will be to roll with the punches.
5. **Give to those less fortunate.** If you already have a cash reserve, your debt is under control, and your retirement savings are in good shape, consider donating your refund to a cause you believe in. Before you do, check out the charity's efficiency on [www.charitynavigator.org](http://www.charitynavigator.org). Also, see if your gift will trigger matching funds from another donor. The rewards may be both tangible (a tax deduction if you itemize) and intangible (the satisfaction of helping to make a difference). That's something most dads would heartily approve of.