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Your Money

By Tina Orem

SHORT-TERM LOANS SHORT ON APPEAL

Regulators and consumer advocates, including Consumers Digest, long have criticized payday loans, which are high-interest short-term loans that are guaranteed by the borrower's next paycheck. That industry now faces competition from major banks.

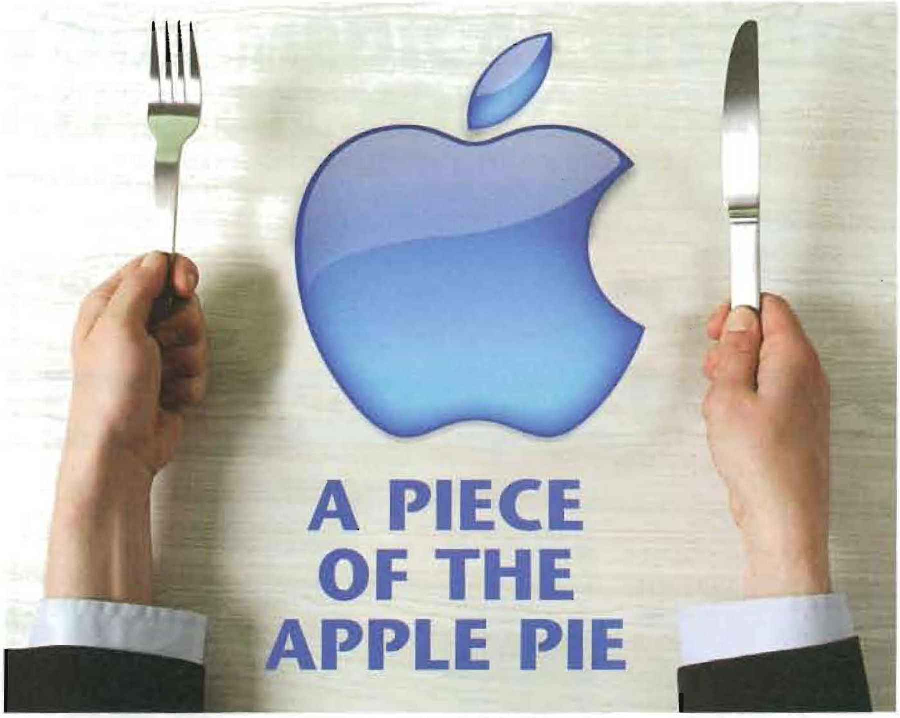
At least three—Fifth Third Bank, Regions Bank and U.S. Bancorp—now offer small, quick loans that have names such as "direct deposit advance" loans, "early access advance" loans, or "ready advance" loans. Like the deplorable payday loans, you should avoid these.

For a fee—typically \$1 for every \$10 that's borrowed—checking-account customers can borrow up to \$1,000, which they typically must repay within 35 days. If a borrower defaults, the bank can tap his/her other accounts at the bank to pay off the loan. And if an account receives a direct deposit when there's an outstanding loan balance, the bank can apply all of that deposit toward the balance, even if it creates overdraft charges, which banks aren't shy about inflicting.

Kathleen Day of Center for Responsible Lending says the loans aren't technically payday loans, but the fees are no less outrageous. If the banks disclosed them as an APR instead of a "fee," you would see that the interest rates are in the triple digits!

U.S. Bancorp spokesperson Teri Charest says the product's high cost is disclosed in the loan's written terms. Further, taking an advance loan for 9 consecutive months will get you cut off for 90 days. A lot of overdraft activity also makes you ineligible.

Instead, you should ask for a revolving line of credit, Day says, or consider using a credit card.



A PIECE OF THE APPLE PIE

Apple (Nasdaq: AAPL; Price: \$564.59) has been a no-go for income investors who seek reliable dividends instead of capital gains. That changed in March 2012, however, when the company announced plans for a dividend of \$2.65 per share in its fourth quarter, which began July 1.

The move sets a precedent that might get more dividends into the hands of income investors, says Laila Pence of Pence Wealth Management, because higher margin, high-growth companies likely will be under pressure from shareholders to follow Apple and pay a dividend. She believes that Google (Nasdaq: GOOG; Price: \$601.00) is next.

Dave Abate, who is a certified financial planner at Strategic Wealth Partners, says some tech companies might increase dividends in response to the income trail that Apple is blazing in the sector. He believes that you should watch Cisco (Nasdaq: CSCO; Price: \$16.46), IBM (NYSE: IBM; Price: \$195.11), Intel (Nasdaq: INTC; Price: \$25.72) and Oracle (Nasdaq: ORCL; Price: \$26.18) as likely to do that.

DO YOUR DONOR DILIGENCE

In March 2012, Internal Revenue Service launched Exempt Organizations Select Check (apps.irs.gov/app/eos), which is a free search tool that's designed to help you to find information about charitable organizations in one place.

Users can check whether contributions to an organization are tax-deductible, whether IRS ever revoked the charity's tax-exempt status and whether the charity filed its tax returns on time, all of which are potential indicators of whether a charity uses your money efficiently. Users also now can look up charities by employer identification number, or EIN.

Consumers Digest will examine charities and their spending and fundraising practices in the November/December 2012 issue.

PAPER TRAIL SHRINKS FOR SOCIAL SECURITY

If you're in the habit of keeping tabs on your Social Security benefits via Social Security Administration's (SSA) annual mailings, you might have to learn a new habit. In May 2012, SSA launched its "My Social Security" website (ssa.gov/my statement/) in a cost-saving move to eliminate some of the 150 million paper statements that go out every year.

The administration still will send paper statements to people who are older than 60. If you're younger than 60, you can get a printed statement, but you must request one first. The personal account that you set up on the website allows you to see the earnings and benefit information that has been included in the paper versions, as well as estimates for disability and survivor benefits.

To set up your online account, you must verify your personal information, which includes, of course, providing your Social Security number.

HOUSING TREND: OWN TO RENT

Bank of America's Mortgage to Lease program, which was launched in March 2012 is drawing skepticism. Under the pilot program, a delinquent borrower who is deemed to have enough income to make an affordable rental payment trades his/her property title for a lease agreement—typically up to 3 years—and rent payments that are less than his/her existing mortgage payment.

But Angela Martin, who is a consumer advocate at Economic Fairness Oregon, questions why Bank of America wouldn't just modify loans for borrowers who the bank determines can pay rent. "It's unbelievable to me that we continue to feel that banks are going to wake up and be these good community players and do things for altruistic motives," she says.

Bank of America didn't respond to our question about why the 1,000 borrowers didn't qualify for loan modifications, saying only that that option had been "exhausted."

Bank of America spokesperson Rick Simon says, however, that the bank will report the deals as deed-in-lieu transactions to the credit bureaus.

"This is less damaging to the credit history than a foreclosure and generally will allow the borrower to qualify for another mortgage in less time," he says. The program, he says, could stabilize housing prices by keeping a portion of distressed properties off the market.

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The program, which was limited to Arizona, Nevada and New York, was for borrowers who were delinquent on their mortgages for more than 60 days, couldn't get a loan modification and faced foreclosure. At press time, no decision had been made about whether to expand the program. No other major bank with which we spoke was planning a similar program.

A HEADS-UP IF YOUR ADVISER IS BROKE

Do your financial adviser's actions speak louder than his/her advice? Starting July 1, 2012, you'll be able to find out more easily whether your financial adviser is (or was) in financial straits personally.

On its website, cfp.net, Certified Financial Planner Board of Standards (CFPBS) will flag the online profile of any certified financial planner who has filed for bankruptcy in the past 5 years, and it will list those names in quarterly news releases. Previously, CFPBS subjected advisers who had filed for bankruptcy to a disciplinary process that often disclosed little to consumers.

STRESSING OUT YOUR BANK

Federal Reserve Board released the results of its latest stress tests of bank holding companies in March 2012, and those tests drew attention, because four of the nation's 19 largest bank holding companies—Ally Financial, Citigroup, MetLife and SunTrust—didn't pass.

But unless you're an income investor, the results are much ado about nothing, says Anthony Polini of Raymond James, which is an investment and financial-planning company. (They don't mean that the banks are close to failing.) Income investors who seek reliable dividends shouldn't shy away from investing in big banks, he says.

Polini says the stress tests show how strong U.S. banks are relative to their foreign counterparts. The tests evaluate whether a bank holding company, in theory, still could return extra cash to shareholders (usually in the form of dividends) if a series of unlikely scenarios unfolded. A bank that fails the test essentially is being told by The Fed to hold onto its cash in the case of a drastic downturn rather than pay, or increase, dividends.

But banks that perform well in the test could get the green light to raise dividends. For example, after The Fed released the 2012 results, Wells Fargo (NYSE: WFC; Price: $31.82) announced that it was raising its dividend by 83 percent to 22 cents a share.

WHEN YOUR ADVISER MOVES

During the 2008 financial meltdown, big financial advisory firms gave advisers 3- and 4-year retention bonuses to keep them around. Now that time is up, so more brokers and advisers are on the move and want to take their clients with them. But such a move might cost you.

Eleanor Blayney of Certified Financial Planner Board of Standards, which certifies financial planners, says you should ask your adviser or broker whether your holdings will be transferable at no cost. In particular, if you purchased a proprietary product that can't come over to your adviser's new firm, you might have to sell it and incur commissions or even a loss.

Further, Blayney says, you should ask whether the terms of your underlying investments change because of the transfer. For instance, advisers might be able to transfer annuities tax-free, Blayney says, but such a maneuver also might reset the clock on your ability to access the funds without paying a surrender fee. That means that you would have to wait at least another 6 years before you can access your money again without paying a fee.

Blayney says that a reputable adviser will provide a written statement of the total cost of any transfer or exchange, the commissions that he/she will earn from it, and any changes in the surrender period or other term.

PRIVATE EQUITY NOT SO EXCLUSIVE

Private-equity funds, which got some buzz in the 2012 presidential-election campaign, typically have returns that are 5–8 percentage points above the returns on the Standard & Poor's 500 index, according to London Business School's Coller Institute of Private Equity. But that gap is growing. According to research that was released in April 2012 from Private Equity Growth Capital Council, private-equity funds beat the S&P 500 by 11.5 percentage points over 1 year.

Although typically you need at least $250,000 to invest in a private-equity fund, you should know that you still can get in the game by buying shares of the public companies that manage those private-equity funds. The parent companies also benefit by collecting management and incentive fees from the companies in which their private-equity funds invest.

"Private-equity stocks are actually a better deal than investing in the underlying funds," says Derek Pilecki of Gator Capital Management. That's because you're on the same side of the table as the managers who are running the funds, "and running those funds is a very profitable business."

Pilecki likes KKR (NYSE: KKR; Price: $11.67), largely because he believes that the market has undervalued the incentive fees that KKR could receive down the road as a result of its private-equity investments.

SEC TARGETS SHELL GAMES

Securities and Exchange Commission in May 2012 suspended trading in the stocks of 379 dormant companies on the over-the-counter (OTC) trading system after those companies didn't respond to SEC queries. The agency heralded the suspensions as a pre-emptive move to thwart the use of dormant companies in *pump-and-dump* schemes, in which swindlers drive up stock prices before they sell and leave other investors with worthless stock.

But Cromwell Coulson, who is chief executive officer of OTC Markets Group, says the action won't make a big dent in securities fraud. About 3,000 OTC companies don't provide information, he says, and companies that keep their SEC filings current also are used in so-called shell scams.

Thomas Sporkin of SEC says the huge number of suspensions in May 2012 probably won't be the norm, although he didn't rule out a similar culling in a few years.

So how can you tell whether you're dealing with a shell company? You should examine the company's financial statements, SEC advises, and be wary if a company's auditors either refuse to certify information or say the company might not have enough money to continue to operate. Those are signs that the company might be a shell and its stock should be avoided, SEC says.

Tina Orem has been a freelance business writer and editor for 10 years. Her work has appeared in Advisor Today, StreetAuthority.com, Investing Answers.com, PC World and other publications. Before writing, she was a corporate-finance executive.

Stock prices reflect the prices that were available at press time and are subject to change.

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