The New York Times
nytimes.com

October 22, 2005
Your Money

A Few Pitches That Come With Fine Print

By DAMON DARLIN

Everyday we are cajoled with pitches from marketers who have new ways for us to spend money. Most of them just don't make any sense. A few will. Let's take a look at several that keep popping up.

The rate for a 30-year fixed-rate mortgage hit 6.09 percent this week, up from 5.64 percent a year ago. The Mortgage Bankers Association reports that the refinancing trend is slowing - the four-week moving average of its index is down 3 percent - and such loans account for 42 percent of all mortgage business compared with nearly half in January.

As the housing market slows even more, expect the hard sell on refinancings. These days, marketers are encouraging you to extract cash out of your house to take advantage of its rising value. But the pitch is often focused on those people who have already tapped their own bank, either in the form of a second mortgage or a home equity line of credit.

The solution? How about a new mortgage to take care of all your problems? Here is a typical example of the seductive financing. Your first mortgage is for $160,000 at a rate of 5.75 percent for 30 years. With a rate like that you should be pretty happy now with a monthly payment of interest and principal of $933. But you want to tap into the increased value of your house and take out a second mortgage of 7.5 percent on a 15-year loan. You face an additional monthly payment of $695 for a total payment of $1,628.

But LendingTree, for instance, would tell you, no, what you should do is take out a new cash-out first mortgage of $235,000 at 6.25 percent. Your payment will be only $1,447, for a savings of $181 a month. You also will be sitting on $75,000 in cash, or slightly less if you had a home equity loan and used the money to pay it off. "It makes sense for almost everyone," says Anthony Hsieh, president of LendingTree.com, a business that connects consumers to mortgage companies.

Indeed, Mr. Hsieh is such a believer in consumers blending all their borrowing into one package and looking at the total cost that he is skeptical of the adage that you shouldn't refinance unless rates drop two percentage points below your mortgage. "You can throw that rule out the window," he said. "It no longer applies."

Think this one over long and hard. People no longer consider mortgages as something to be paid off - remember when people had mortgage-burning parties after they finally got free and clear - but rather as a financial tool. This is another example of the modern, but nonetheless odd, notion that you should spend more to save, in this case, $514 a month more.

Why take on more debt? Ah, you might say, rates are lower now than they will be in a year and my house may be worth more now than it will be a year from now, so the time to act is now. It is odder still that you should go more heavily into debt to save, especially if times may be getting tougher.

Instead, increase your efforts to pay off the home equity loan the way you would scrimp to pay off credit card debt - give up smoking, lattes or dinner out several times a week.

Credit score and credit monitoring People who might soon be borrowing should check their credit scores. MyFICO.com provides the scores for $15. You can also get a free credit report once a year from each of the credit monitoring agencies.

You can also buy credit score and credit monitoring services that will give you daily updates. Such a service can cost as much as $16 a month. Why would you need it? Many of the providers play on your fear of identity theft. Indeed, TrueCredit, a unit of TransUnion, one of the three big credit monitoring agencies, sponsored a study that showed 63 percent of Americans thought they would be victims in the next year. The company used the occasion to feature its 3-Bureau Credit Monitoring product.

"We'd like to get people checking their credit for positive reasons, like how you check your cholesterol," said Zachary Hastings Hooper, a spokesman for TrueCredit.

Resist the urge as you would a fat-laden Krispy Kreme. While there are real and frightening cases of identity theft, it happens to only a small percentage of Americans - 1.5 percent, according to a 2003 Federal Trade Commission survey. And 67 percent of what we call identity theft is just old-fashioned credit card fraud. Credit card companies will protect consumers against most losses when a card is misused. Most credit card companies let you check your card activity on their Web sites - free. That might be the smarter way to go.

Some of the services are a bit annoying. A few alert you in an e-mail message when you use the card. And that's the problem: so many alerts arrive that they are easy to ignore.

But even that won't offer complete protection. If a new account is opened in your name, you will not hear about it for several weeks. That's hardly peace of mind. You'll get the first statement from the new account by that time.

In any case, credit scores don't change so quickly that you need to monitor them every day or week, or month, for that matter. You don't check your cholesterol every day. If you did, you'd be a hypochondriac. Why would you want to be a credit hypochondriac?

Pink products Limited-edition products have been a very successful fund-raiser for the Breast Cancer Research Foundation, which in the fiscal year ended in June raised $25 million and gave away $22 million to researchers. It and other groups fighting breast cancer, like the Susan G. Komen Breast Cancer Foundation, enlist manufacturers to create special products, usually pink, and ask them to make a corporate contribution.

Cartier, the luxury goods maker, plays a part in that campaign by marketing a special edition of its women's Roadster watch for the Breast Cancer Research Foundation. The company is producing 800 of the watches with a pink dial decorated with pink ribbons for $3,900 each, the same price as its stainless steel Roadster model. Cartier will contribute $30,000 to the foundation but stands to collect more than $3 million if it sells all the pink Roadsters.

It is also worth noting that Cartier spent more on advertising the watch in 10 newspapers across the country than it did on its contribution.

"Whether it is good, that's something we can't answer," said Barbara Brenner, executive director for Breast Cancer Action, a group that has been crusading for more accountability in the fund-raising for breast cancer research. "If they are spending a high multiple on marketing, wouldn't they be better off spending it directly on the fund?"

Anna DeLuca, the research foundation's director for communications, disagrees. She said the Cartier ads, and the advertising of all the other companies that are part of the campaign, promote the foundation and help to raise awareness. "How great is it for us to get our name out there?" Ms. DeLuca asked. "It's a win-win."

But not necessarily a win for you. You'd be far better off financially by making a tax-deductible charitable donation of $3,800 directly to the foundation. If only seven other people also acted like that, the Breast Cancer Research Foundation would receive more money than it got from the Cartier donation.

One standout Just so you don't think you've found yourself on a forced march through iffy marketing ideas, here's a pitch that sounds fishy, but is not.

Bank of America is starting a promotion called Keep the Change. It will round up to the nearest dollar every purchase a customer makes on a Bank of America debit card. Then it will transfer the difference between that charge and the actual price of the purchase into the customer's savings account from his or her checking account. The company characterized the promotion as a way to help Americans save, even sticking a big couch in Grand Central Terminal and hiding change under the cushions that commuters were supposed to dig out.

On a slightly more dignified level, the bank is using David Bach, author of "The Automatic Millionaire," as a spokesman for the campaign. He is advising people to participate in a program that "helps you save while you spend."

To show just how serious it is about saving, Bank of America sweetened the deal by promising to match the entire transfers for the first three months and then match 5 percent of each transfer after that up to $250 a year.

You get a nickel for every dollar you "save" by using a debit card that carries no annual fees for its use. Not bad, as long as it doesn't make you buy more. It's hard to find the downside, though consumer groups have disliked debit cards, because they lack the protections against theft that a credit card or even an automated teller machine card carry. But the bank says that if a thief uses your card to empty your account, it puts the money back within 24 hours.

What does Bank of America get for its generosity? As you might have guessed, it isn't being altruistic, but there is nothing wrong with that. It wants to encourage its existing customers to stop using paper checks, which are expensive to process. The bank charges a 1 percent to 2 percent transfer fee to the merchant accepting a debit card, so processing the electronic transfers of these debit cards isn't quite a loss leader.

The bank, already the largest debit card issuer with 27 million cards in use, also wants to add customers. The company would not say what its typical customer acquisition costs are or how much this promotion will cost per customer. But giving away less than 2 cents a transaction is no different from a bank's giving away a $200 iPod for opening an account, said Diane Morais, deposits and debits product executive at the company.

Bank of America hopes saving can also be music to your ears.

E-mail: yourmoney@nytimes.com