MONEY MARKET

Expert warns consumers:

Home equity loans demand caution

So Christmas is over, and the wad of unpaid bills is almost as thick as the pile of torn wrapping paper. You've borrowed on VISA to pay off the department stores and now you're thinking of leaning on Mastercard to keep VISA happy.

But into this bleak scene dances a happy throught.

You can take out a home equity loan on your house. Then you can pay off all the charge cards; get a lower overall rate of interest; and retain the tax deductibility of the interest payments you make.

Make sense?

Well, maybe, but be careful, cautions Margaret Murphy, Ph.D., an associate professor of economics education in the School of Continuing Studies at The Johns Hopkins University.

She is the outgoing chairman of the Consumer Advisory Council to the Board of Governors of the Federal Reserve System.

As the popularity of home equity lines of credit grows — spurred in part by tax reform — many financial experts are worried by signs that consumers are becoming overextended, Murphy says.

and consumers need to be aware that unlike a charge account, a home equity loan or line of credit — once kown as a second mortgage — is secured by their house.

"People don't realize that this is not a credit card debt," she says. "It's not a matter of losing your MasterCard rating or your VISA rating. You can lose your house."

Traditionally, second mortgages were used primarily to pay for home improvement, higher education, or extraordinary medical expenses, explains Murphy, who holds a 7'h.D. in economics from Rutgers and serves as director of Johns Hopkins' Columbia Center for continuing studies.

Tax reform has changed the picture somewhat. Since Jan. 1, interest paid on loans secured by residences will continue to be deductible, while interest paid on credit card accounts will not be.

Hence there has been a steady movement toward some type of home equity borrowing, either with fixed rates and loan amounts, or in the form of variable rates and revolving lines of credit.

For "sophisticated tax minimizers," home equity lines of credit have obvious advantages, says Murphy. But the same arrangement could be a trap for others.

"If you extend your home equity line to pay for food, clothing, and other new purchases, in addition to your existing debts, you haven't expanded your net worth, you haven't closed down your other credit card uses, and you have jeopardized your home.

"We've got some leading indicators that are troublesome. We've got delinquency rates on certain kinds of (consumer installment) loans that are increasing in such a way that suggests people have overextended themselves — and of course the delinquency lags behind the extension.

"We have unprecedented demand for credit counseling services, which is kind of another precursor to delinquency. People are seeking out help and saying they are overextended and they need some control on their spending position."

Compounding the potential problem is the fact that nationwide, "we've had a nice easy time," Murphy said. "We've had low inflation.

"But there are all kinds of ticking time bombs. All we need is for inflation to shoot up again, or the oil prices to rise again and trigger some other changes in the economy at large, or for unemployment to increase . . . and it will wreak havoc with this whole situation, because those marginal borrowers are the ones that will get hit."

Borrowers need to keep in mind that some equity lines of credit typically have variable rates, and that if inflation rises, so will their rates of interest, she said.

Consumers should also realize that there is a "whole array of rates" available, from low to high; that there are fees associated with home equity loans; and that depending on the situation, it may be more economical to consolidate one's debts on a credit card rather than in the form of home equity.

At the same time, there is "ferocious competition" among extenders of credit, and consumers are being bombarded with unsolicited credit card offers. Many lenders seem willing to adjust their own criteria in the changing economic situation and competitive climate.

"We're looking at a definite shift in the use of home equity lines," she said. "Home equity lines are being used for other than traditional reasons. I think there's a growing level of concern about what's happening."

According to an estimate in the December issue of NSMA Equity, a publication of the National Second Mortgage Association, there is now about $35 billion worth of revolving credit outstanding in home equity lines. That figure could "easily" reach $70 billion this year, the article says. The amount outstanding in second mortgages is estimated at $175 billion.

Estate creation begins with wealth accumulation

By Milton A. Dugger, Jr., Ct.

Forbes magazine this month produced a listing of the four hundred (400) richest Americans. The top rated person was given a worth of $4,500,000,000.00. This is certainly an awesome amount of wealth concentrated in one person's hands.

The Oct. 27, 1986 issue shows the need for $180,000,000.00 to quality to make the bottom of this listing of the "super rich."

Dick Clark, who has made his $180,000,000.00 worth from being a chronicler of the music of black folks, appears in the "bottom group."

Obviously, then, we have the potential to create wealth for others, but have not considered that we who can make others "super rich" can at leasty reposition ourselves and our families. Note that at least half of the people listed are "super rich" because of inheritances.

In my fourteen (14) years in the business of creating estates which leads to the accumulation of wealth, members of the black community have espoused the argument, "I had to make it on my own, so let them." This is tunnel vision. It is myopic in scope. It is a self-defeating, senseless argument.

My mother always argued that there was no point in living your life if the next generation began again at the same point. She was speaking about money.

Money is not everything. Money can not buy everything. Yet, money is a requirement for success in this life. Poverty is not something to be sought or possessed from one generation to another.

"A Raisin in the Sun" centered on the good money can do when a concerned family member continued a life insurance policy to his death and allowed his widow and family to realize the dream of moving out of the apartment into a home.

An integral part of making a start in the creation of wealth is to create an estate. A life insurance contract does this with the stroke of a pen and the payment of a premium. You can only participate in this kind of estate creation, however, if you have love for others. This is not a program for the selfish.

Interestingly, this same product can be used to endow a church, an institution, an organization, or a scholarship-fund even a fuel fund. With the stroke of a pen and payment of the premium, one can multiply his gift to family, church, institution, scholarship-fund, etc.

Perhaps, you may want to speak with me or my associates about how you can improve your estate and/or your wealth accumulation.

Wolf Tax Center helps consumers cope with '86 Tax Act

The WOLF TAX CENTER, Inc. will make a concerted effort to keep our clients informed about "Tax Reform." Members of our staff attend several tax seminars each year and subscribe to the major tax publications. We feel that in order to determine the right tax planning strategy for our clients it is necessary to stay informed.

Taxpayers are now experiencing the most comprehensive revision of the Tax Code since 1954. The revision alters the structure of the tax system, but not the overall level of taxes.

This will virtually affect everyone because it includes a reduction of individual tax rates. It also includes an increase of your personal exemption to $2,000 by 1989.

"Transitional Rules" have been implemented in order to phase-in this process over the next several years.

Subsequently, certain provisions of "Tax Reform" will dramatically increase your chances of paying higher taxes. To accomplish this a series of reductions, ceiling and floor limits and restrictions on itemized deductions will be utilized.

For example, married couples that both earn income will no longer be able to deduct the 10% of the lower wage earners income. Unemployment benefits will be fully taxable and Sales Tax will no longer be deductable.

"Tax Reform" disallows deductions for Consumer Interest, other than qualified housing interest. In order to qualify, the indebtedness must be secured by the taxpayers principal or second residence and cannot exceed the purchase price of the property plus the cost on any improvements.

The current 5% floor on Medical Expenses will increase to 7.5%. Essentially this means that if your Adjusted Gross Income is $20,000 you must exceed $1,500 in medical deductions to realize anything.

For those that deduct Union Dues, uniform Purchase and Maintenance, Small Tools and Safety Shoes only those expenses that exceed 2% of Adjusted Gross Income will be allowed.

Job related Education Expenses will also have to exceed the 2% floor, while Moving Expenses will become a Miscellaneous Deduction not subject to the 2% rule.

There will be no change in Charitable Contributions if you itemize. Non-itemizers will no longer benefit from this deduction after 1986.

As you can see, the overall changes will affect everyone and it is certain that you will need to keep all records and information concerning your taxes. WOLF TAX CENTER, Inc. will not only prepare your taxes, but will assist you in planning and understanding the effects of "Tax Reform" on your specific situation. We will help you to plan a tax strategy to maximize your deductions while offering you year-round service.

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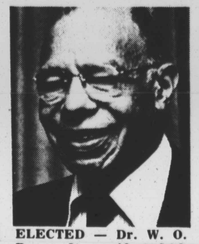
Savings accounts increased $1,250,590, or 4.6 percent, to give the association savings totals of $28,114,966, as of December 31, 1986, highest in the Association's 29-year history.

The 83 mortgage loans, granted to customers to buy or build homes, churches and businesses, totaled $2,930,725, an increase of 72 percent over 1985.

Since its founding in 1957, Advance's mortgage loans have totaled $48,840,558.

Advance Federal's net worth also reflected an increase, up 8.8 percent, or $2,255,000 for total net worth of $3,145,979 at the end of 1986.



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Mortgage Loans and Other Liens on Real Estate	30,091,952
All Other Loans	10,774,307
Federal Home Loan Bank Stock	329,200
Real Estate Owned	NONE
Cash on Hand and in Banks	556,479
Investments and Securities	9,102,570
Fixed Assets (LESS DEPRECIATION)	1,046,071
Deferred Charges and Other Assets	402,268
TOTAL ASSETS	52,303,047

LIABILITIES AND NET WORTH

Savings Accounts	$44,580,998
Advances from Federal Home Loan Bank	700,000
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Other Borrowed Money	NONE
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TOTAL LIABILITIES AND NET WORTH	48,479,404

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Possibility of homelessness crosses all racial and social barriers

By Clarence Brown

Mary Marshall left the warmth, comfort and security of her Moorehead City, NC home to move away from her husband with whom she was having marital problems.

After moving in with one of her two daughters, who lives in Baltimore, Marshall, 41, thought her problems would be over. But it was just the beginning.

About two weeks later, Marshall was evicted from her daughter's apartment into the streets, with very few clothes and no money.

"It's a bad situation," Marshall said. I'm not from the area, but I'm just thankful to have a place to stay."

She was lucky. At least for now. While nearly 20,000 people, seeking shelter in Central Maryland, will be turned away this year, because of shortages of funds or facilities, Marshall was able to move into a Salvation Army Housing Unit at least temporarily.

In Baltimore city and the surrounding counties, young, single adults and families account for 50% to 75% of the homeless seeking help. Many are young women with young children who are either evicted or threatened with violence.

During 1986, nearly 19,000 were turned away from shelters for lack of space. There are approximately 805 emergency shelter beds in the metropolitan area. Most operate at capacity every night.

Most of the shelters operate with funding from private contributions, while many do receive some type of government funding.

In 1985, one of every five sheltered in Maryland was a former resident of a state institution. Of that number, two-thirds came from mental health facilities.

The Baltimore region, which has the fourth largest homeless population in America, had added another victim to its ever growing group of homeless when Mary Marshall lost her residence.

The Junior League of Baltimore, the Greater Baltimore Shelter Network and Project Shelter are sponsoring a month-long project called "Have A Heart For the Homeless" beginning in February.

"Everyone of us are two paychecks away from being homeless, said Peggy Vick, director of a Salvation Army facility in the 1100 block of N. Calvert St. "It crosses all economic barriers and social lines. You can be dislocated from your situation without any sense of warning."

Some of the fundraising activities will include a phonathon by 5,000 members of the Greater Baltimore Board of Realtors, and a special preview night to open the Seventh Annual Baltimore Home Show.

There will be appeals to individuals, corporations, churches and synagogues in Baltimore and the five surrounding counties.

A goal of $100,000 has been set for this year's appeal, with the A. S. Abell Foundation to provide a $1 for every $2 raised by the community up to a total of $50,000.

"Our money goes directly to the shelter provider, but obviously the funds we raise are only going to do but so much," said Donna Lee Frisch, co-chairperson of Project Shelter.

Frisch said the groups provided funding for 20 shelters in Central Maryland last year.

A 20-year-old woman from Philadelphia, who did not want to give her name, said she was displaced after her sister-in-law put her out of a Baltimore home.

The woman, who was staying at the Salvation Army shelter on Calvert Street, said the only reason she moved here was because her brother asked her to.

"My brother is my only living relative and I came here to live with him," she said. "He thought that I would do a little better here."

"I had a little money when I came here, but now that's all gone."

For the past several days, she has been going out looking for a job.

"After seven days, I won't be able to stay here because I don't have any children. I am taking up room for families."

Most of the people who enter shelters do so because they may have lost their jobs, been evicted from their homes or released from a hospital and have no place to go.

"The backgrounds are as varied as the personality," Vick said.

Vick said for the past five years, her shelter has been full year round.

"It's like a cycle and sometimes you just can't get out of it."

With additional funding, maybe some will.

City Council elects Gallagher

(UPI) — The City Council has unanimously elected Councilman Frank Ga-lagher as its new president.

Gallagher replaces Clarence "Du" Burns, who was inaugurated as mayor Monday. Burns became mayor when William Schaefer was elected governor.

A 27-year veteran of the council and its vice president for almost four years, Gallagher had been regarded as the favorite choice for the post.

In his first act last night as head of the city's 19-member legislative body, Gallagher presided over the appointment of a new council member to fill the 3rd District vacancy left by his election.

The council unanimously elected Wilbur Cunningham, 39, a lifelong Northeast Baltimore resident who has served as a legislative policy analyst to the council.

First District Councilman Donald Hammen was named council vice president.

Local news wrapup

Four die in 2 snowstorms

At least four people have died as the result of a pair of snowstorms that hit Maryland with a one-two punch over the past five days, state police said.

A storm that blew up from the southeast dumped up to 10 inches of new snow Sunday night on the Baltimore area and up to 14 inches on the upper Eastern Shore, thwarting efforts by drivers and area businesses to dig themselves out of Thursday's drifts.

State police said the latest weather-related death occurred Sunday when a car skidded across Interstate 95 in Prince George's County and over a retaining wall near a ramp to the Capital Beltway. The vehicle then fell about 60 feet and landed on its roof.

A Philadelphia woman, Juanita Davis, age unknown, was killed and four other occupants of the car, including a 3-month-old baby, were injured.

The state medical examiner said a Worcester County resident, Donald Hickman, 50, of Whaleysville, died of hypothermia early Friday when he fell near the front steps of his trailer. Earlier, a 69-year-old Ellicott City man and a 72-year-old Bel Air man died while shoveling snow.

The snow that began around daybreak Thursday crippled the state's roadways, and crews worked into the night to clear the streets by Friday morning.

Snow flurries began by 10 a.m., Sunday and state police issued their first snow emergency measures in the state in St. Mary's County by 11:30 a.m. State and federal offices, as well as many school systems, were closed due to the storm.

Ken Schaver, a forecaster with the National Weather Service, said at 8 a.m. Monday, Baltimore-Washington International Airport had received 9.2 inches of snow, which added to Thursday's snowfall brought the total accumulation to about 18 inches.

The upper Eastern Shore was the region hardest hit by the latest storm, with the NWS reported accumulations of 13 to 14 inches in Dorchester County. Salisbury reported 13 inches of new snow.

In contrast, Maryland's western reaches were relatively unscathed by the storm. Hagerstown reported 3 to 4 inches of new snow, while Cumberland — part of Maryland's traditional "snow belt" — received only a half inch.

Officials said the last time the central portion of the state was covered by two major snowfalls in a short period was in January 1979. But NWS forecasters said the record for the most snow in a 24-hour period was set in 1983, when 22.9 inches fell at BWI airport.

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