

Sean Pope & Zachary Taylor's

# MORTGAGE UPDATE



Compliments of: Sean Pope & Zachary Taylor

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## Why Buying a Home is a Good Idea

**A**s a fairly general rule, homes appreciate about four or five percent a year. Some years will be more, some less. The figure will vary from neighborhood to neighborhood, and region to region.

To some, five percent may not seem like that much at first. Stocks (at times) appreciate much more, and you could easily earn over the same return with a very safe investment in treasury bills or bonds. But take a second look: Presumably, if you bought a \$200,000 house, you did not pay cash for the home. Like most of us, you got a mortgage, too. Suppose you put as much as twenty percent down—which would be an investment of \$40,000.

At an appreciation rate of 5% annually, a \$200,000 home would increase in value \$10,000 during the first year. That means you earned \$10,000 with an investment of \$40,000. Your annual "return on investment" would be a whopping twenty-five percent!

Of course, as a homeowner you are making mortgage payments and paying property taxes, along with a couple of other costs. However, since the interest on your mortgage and your property taxes are both tax deductible, the government is essentially subsidizing your home purchase.

Your rate of return when buying a home is higher than most any other investment you could make.

### Income Tax Savings

Because of income tax deductions, the government is subsidizing your purchase of a home. All of the interest and property taxes you pay in a given year can be deducted from your gross income to reduce your taxable income.



For example, assume your initial loan balance is \$150,000 with an interest rate of eight percent. During the first year you would pay \$9,969.27 in interest. If your first

payment is January 1<sup>st</sup>, your taxable income would be almost \$10,000 less—due to the IRS interest rate deduction.

Property taxes are deductible, too. Whatever property taxes you pay in a given year may also be deducted from your gross income, lowering your overall tax obligation.

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## ADVANTAGE

*We gain the advantage in any situation through one medium: time. We gain the advantage by doing things before they need to be done — positioning ourselves ahead of time in the best place. Those who think ahead of the approaching action will have the advantage. They will be the winners.*

*Continued from page 1*

### **Stable Monthly Housing Costs**

When you rent a place to live, you can usually expect your rent to increase almost every year—or even more often than that. However, if you get a fixed-rate mortgage when you buy a home, you have the same monthly payment amount for thirty years! Even if you get an adjustable rate mortgage, your payment will usually stay within a certain range for the entire life of the mortgage—and interest rates aren't nearly as volatile now as they were in the late seventies and early eighties. Imagine how much your rent might be ten, fifteen, or even thirty years from now? Which makes more sense?

### **Forced Savings**

Some people are just lousy at saving money, and a house is an automatic savings account. You accumulate savings in two ways. Every month, a portion of your payment goes toward the principal. Admittedly, in the early years of the mortgage, this is not much. Over time, however, the amount does accelerate.

Second, your home appreciates in value. As previously stated, average appreciation on a home is approximately five percent, though it will vary from year to year, and in some years may even depreciate. Over time, however, history has shown that owning a home is one of the very best financial investments you can make.

### **Freedom & Individualism**

When you rent, you are normally limited on what you can do to improve your home. For example, you have to get permission to make certain types of improvements. Nor does it make sense to spend thousand of dollars painting, putting in carpet, tile or window coverings when the main person who benefits is the landlord or owner of the property and not you.

Since your landlord wants to keep his expenses to a minimum, he or she will probably not be spending much to improve the

place, either. When you own a home, however, you can do pretty much whatever you want. You get the benefits of any improvements you make, plus you get to live in an environment you have created, not some faceless landlord.

### **More Space**

Both indoors and outdoors, you will probably have more space if you own your own home. Even moving to a condominium from an apartment, you are likely to find you have much more room available—your own laundry and storage area, and hopefully bigger rooms. Apartment complexes are more interested in creating the maximum number of income-producing units than they are in creating space for each of the tenants.

If you are moving to a home for the first time, you are going to be very pleased with all the new space you have available. You may even have to buy more “stuff to fill it up!”



## Mortgage Tidbits

### ***Mortgage Servicing Helps***

Innovations in Mortgage Servicing over the last 10 years have significantly helped keep families in their homes after a mortgage default has occurred, according to a study by Freddie Mac. In addition, the earlier that the financially-stressed borrowers start repayment plans or negotiate loan modifications, the more likely they are to keep their homes. A loan modification is a change in one or more terms in the borrowers loan that allows the loan to be reinstated and can result in a payment plan that the borrower can afford.

*Source: [www.realtytimes.com](http://www.realtytimes.com)*

### ***Use Reverse Mortgage to Buy Long-Term Care Insurance***

The Centers for Medicare & Medicaid (CMS) are planning a new program to encourage homeowners to use a reverse mortgage on their home to buy long-term care insurance. However, critics say this is not always a good idea. This type of insurance is generally purchased by more affluent Americans to protect their assets against the costs of a long-term illness. And according to David Certner, AARP's director of federal affairs, “If your assets are so small you have to take out a mortgage loan to buy the insurance, it's probably not right for you.”

*Source: [AARP Bulletin](#)*

### ***Homes For Retiring Boomers***

A recent study on baby boomers—age 40-45—indicates that 75 percent plan to buy a new home when they retire. Right now 33 percent of “boomers” own two homes. About 60 percent of this group wants a home within a one-hour drive of where they now live. And about 20 percent plan to retire between 51-55. Twenty-five percent say they will consider purchasing a home in an age-restricted community when they decide to retire.

*Source: [www.inman.com](http://www.inman.com)*

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Q  
& A

## What is a Non Income Verification Loan?

The best interest rates are generally for conforming loans. A conforming loan is one that adheres to FNMA's strict lending guidelines. Conforming loans generally require strict proof of income, assets and other debts. But if, for example, you cannot prove income to a lender, whether it is because you are self-employed for a short time or for some reason cannot otherwise prove income, there is something called a non-income verification (NIV) loan.

NIV loans are not just for people who are self-employed either. In fact, these types of loans are often used because the loan process is usually much faster. For example, for people who possess many rental properties, documentation for the loan process becomes more and more cumbersome each time. The NIV loan can usually make the process smoother and easier for everyone involved.

NIV loans (also known as "stated income") require less documentation than traditional conforming loans. Lenders often advertise these programs as "no doc" loans, meaning the borrower does not have to come up with any documentation other than a credit report and a loan application.

Some loans are called "no ratio" loans, in that you don't have to justify your total debt (that is, mortgages plus other continuing obligations, such as car loans and student loans) compared to your income.

But also remember that a NIV loan does not mean that you can or even should misrepresent your financial situation. You should always be honest with your lender. Feel free to identify documentation issues up front, educate the lender about your finances and most of all be truthful. The more a lender suspects you are hiding something, the more documentation the lender will usually ask for.

Of course, there is also a price to pay for doing an NIV loan; the interest rate is generally higher for these type loans than for full documentation loans. The reason for the higher rate is obvious – the less documentation you provide, the more risky you are seen as a borrower. However, some of the more major, aggressive portfolio lenders have recently been offering more competitive rates on their NIV loans to borrowers with high credit FICO scores.

SPECIAL NOTE: Watch what you say on NIV Loans. Just because you don't have to provide documentation of your income to the lender, it doesn't mean you have a license to lie. Most lenders will make you sign an authorization to release federal income tax returns. They may not check now, but if your loan goes into default, they may obtain copies of your tax returns. If the income you report on your loan application is way out of sync with your tax returns, you may be answering to loan fraud charges.



*"The time to  
repair the roof is  
when the sun  
is shining."*

– John F. Kennedy

## ODDs & Ends

### Do You Ever Wonder...

How important does a person have to be before they are considered "assassinated" instead of just murdered?

Can one cry under water?

If money doesn't grow on trees then why do banks have branches?

Since bread is square, then why is most sandwich meat round?

Why are we asked to "put our two cents in"...but it's only a "penny" for our thoughts"? Where does that extra penny go?

Why does a round pizza come in a square box?

How is it that we put man on the moon before we figured out it would be a good idea to put wheels on luggage?

Why is it that when people describe a good night's sleep, they say they "slept like a baby"...but then babies wake up like every two hours, don't they?

If a deaf person has to go to court, is it still called "a hearing"?

If you drink Pepsi at work in the Coke factory, will they fire you?

Why are you IN a movie, but you are ON TV?

Why do people pay to go up into tall buildings and then put money in binoculars to look at things on the ground?

How come we basically choose from just two people for President and fifty for Miss America?

Why do doctors leave the room while you change? They're going to see you naked anyway.

If a 911 operator has a heart attack, whom does he/she call?

And finally...if you are going to refinish a piece of furniture, shouldn't you have to restart first?





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