Sean Pope & Zachary Taylor's

Mortgage Update

Compliments of: Sean Pope & Zachary Taylor

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Are Mortgage Rates Rising? Should You Consider an ARM?

The more that Americans start to sense the rising of mortgage rates, the better adjustable rates may start to look. A growing number of consumers are moving away from the traditional 30-year fixed mortgage and instead are embracing an ARM—or the adjustable-rate mortgage—to either purchase a home or to refinance the home they own. The reasons for this move away from the traditional to the not-so-traditional vary, as do the risks.

When rates start to rise, some people seriously consider leaping from an adjustable rate to a fixed rate. These people want the *security* of knowing that, no matter what, they are "locked in" to one payment for the life of the loan and not willing to ride a rollercoaster of rising and falling rates. The price of that security usually means a slightly higher interest rate.

Yet some homeowners choose ARMs, gambling on higher rates down the road so that they can afford a pricier or more expensive home right now. Some like the flexibility—they decide whether to pad the house payment each month—while still others figure they'll move before the rate does.

Most economists expect rates to rise again in the coming months. Among the reasons: The Federal Reserve has been lifting short-term rates, inflation has been rising, and the economy has been growing slowly, steadily.

Worriers warn that the trend toward ARMs is a signal of potential trouble, that it makes consumers and the broader economy more vulnerable. ARM Advocates scoff at this—what could be wrong with an option that lowers monthly payments *and* gives borrowers more flexibility? Choice and lower cost are usually an unbeatable combo, the economists assert.

Growing steadily in popularity over the last several years, about one out of every three mortgages now is an ARM, a rate that has climbed from less than one in eight just four

Continued on page 2

Belief

Belief is the knowledge that we can do something. It's the inner feeling that what we undertake, we can accomplish. For the most part, all of us have the ability to look at something and to know whether or not we can do it. So in belief, there is power: our eyes are opened; our opportunities become plain; our visions become realities.

Continued from page 1

years ago, according to the Mortgage Bankers Association. A traditional fixed rate "locks in" one interest rate and one monthly payment amount. An ARM's rate holds steady only for a set period—maybe years or just months. The shorter that initial period, the lower the starting rate.

After the ARM's initial period ends, the rate adjusts, its new level linked to some financial instrument, such as the five-year Treasury note. So if rates have risen at that point, a borrower would face higher monthly payments.

The Case for ARMs

For some, an ARM is a way to extend their reach by getting more house value for the same monthly payment. For others, it is the only way they can afford to own a home at all. For example, a person who is borrowing $200,000 at a fixed rate of 5.5 percent, for example, would pay about $1,135 each month, covering principal and interest. By comparison, if you have just $800 you can devote to a monthly payment and you took the fixed rate, you could qualify for only a $140,000 home. Generally, an adjustable rate mortgage allows one to have more house for the same payment.

ARMs can also allow borrowers to have more cash on hand. That lure is even stronger in interest-only ARMs, which let borrowers keep their required payment at its barest minimum. They add nothing each month to the equity they have in their home—unless they choose to. Take that $200,000 loan mentioned above, for example: An interest-only adjustable rate mortgage at 4.625 percent would mean a monthly payment of just $770.83!

An interest-only ARM puts a premium on borrowers' savvy: If homeowners can budget money to frequently pay down part of the principal, they not only cut their long-term obligations, they amass equity. If they cannot afford to—or if they pay just the minimum—they gain no equity. An owner who pays only interest is betting that the home will grow in value. If it doesn't, he or she could walk away with less or zero profit after selling the home.

ARM and interest-only mortgages are signs that borrowers are getting better about fitting their mortgages to their financial situation. After all, fixed rates have risks, too: Most of what a borrower pays in the first few years is interest, anyway, and being locked in to one rate is pointless if the borrower doesn't stay with the mortgage.

How To 'Ace' the Home Improvement Test

Pay attention. This is a test.

Q#1: Do the most common home repair scams involve a) roofing, b) gutter cleaning, c) driveway paving, d) furnace repair or e) all of the above?

Q#2: What is a sign of a less than reputable contractor—a) door-to-door solicitation, discounts for you for finding other customers, b) contractors who say they just happened to have materials left over from previous jobs, c) contractors who are unavailable by phone except for an answering machine, or d) all of the above?

Q#3: Your contractor should carry what kind of insurance—a) personal liability, b) worker's compensation, c) property damage or d) all of the above?

If you didn't answer "all of the above" to all of the questions above, you've got some homework to do. However, now that you have answers to 3 of the 12 questions in the AARP's "Can You Stop a Home Repair Disaster?" passing the final exam should be a lot easier. And once you ace the full test, getting a quality home improvement for your home will hopefully be a no-brainer.

The AARP (formerly known as the American Association of Retired People) and other consumer advocates says complaints about home improvements often top consumers complaint lists about the services they buy. The Federal Trade Commission, Better Business Bureau and others all say testing your knowledge about home improvements before you sign on the dotted line can go a long way to avoiding complaints that too often follow home improvement work. To that end, AARP created a test you can take as a useful learning tool and it's a test you can't fail! If you select a wrong answer, your test results come with the correct answer.

In addition to the test question's list of home improvement scams, the AARP says other common scams involve chimneys, windows, electrical wiring, tree pruning, water treatment and pest extermination.

To find reputable contractors, along with avoiding those practices found in Question #2, AARP says to:

- stay away from contractors who tell you that your job will be a "demonstration."
- contractors who pressure you for an immediate decision.
- contractors who ask you to pay for the entire job up front.

As for Question #3, if contractors don't carry all the insurance coverage listed, you could wind up paying not only for the work, but also for any injuries sustained on the job and damage to your home.

Q & A

Are Credit Problems Cured by the Passage of Time?

"My credit record is terrible. I have been advised that if I just wait long enough and don't run up any more debts in the meantime, my terrible record will cure itself. Is this true?"

It is only partly true. You have to assist father time or he can't help you. It is true that the force of negative information on your credit score declines as it ages, but this won't do you any good unless you now generate positive information. Old bad stuff plus recent good stuff generates a rising credit score. Old bad stuff followed by no credit activity results in a continued low score. This is a feature of all credit scoring systems.

The Federal Fair Credit Reporting Act puts father time on your side by setting limits on how long negative information can appear in consumer credit records. Once a piece of information has been on a consumer's record for the prescribed period, it is supposed to drop off. Once off, it will no longer affect your credit score.

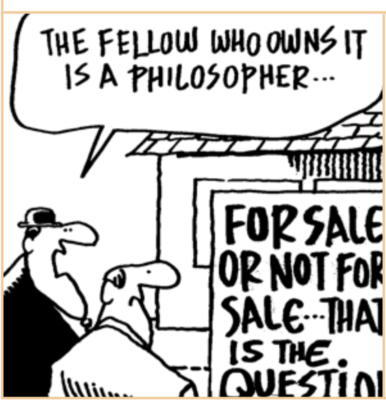
The prescribed periods are as follows: inquiries about you from credit grantors, 2 years; late payments, mortgage foreclosure, collection accounts and chapter 13 bankruptcy, 7 years; chapter 7 bankruptcy, 10 years; unpaid tax liens, forever.

The three major credit-reporting agencies (Equifax, Experian and Trans Union) have built purge routines into their data systems, but I have no idea how reliable the systems are. I am not even sure that all three follow exactly the same purge rules.

I found that on collection accounts, two of the companies purge 7 years after the date of the original missed payment, but the third purges 7 years from the date of the last activity! This means that the collection account of a borrower who pays it off after 6 years stays on the books of the third company for 13 years instead of 7!

It is a good idea for consumers who have adverse information on their credit records not to rely wholly on the purge policies of the three companies. Monitor them by periodically requesting your credit report. And if you happen to have a collection account, pay it as soon as possible, because the clock may not start ticking until you do.

But I repeat, getting rid of all the bad stuff, by itself, does not give you a good credit score. To get a good score, your record must include evidence of payments made on time. If you don't take on any new debt, you are not generating such evidence.



"Whether you think you can or think you can't — you are right."

– Henry Ford

ODDs & Ends

Just a Little Sage Advice...

If you can't be kind, at least have the decency to be vague.

If you lend someone $20 and never see that person again, it was probably worth it.

Always read stuff that will make you look good if you die in the middle of it.

It may be that your sole purpose in life is simply to serve as a warning to others.

A truly happy person is one who can enjoy the scenery on a detour.

Accept the fact that on some days you're the pigeon, and on other days you're the statue.

Happiness often comes through doors you didn't even know you left open.

Always keep your words soft and sweet, just in case you have to eat them.

Drive carefully. It's not only cars that can be recalled by their maker.

Never buy a car you can't push.

Nobody cares if you can't dance well. Just get up and dance.

The early worm gets eaten by the bird, so sleep late.

When everything's coming your way, you might be in the wrong lane.

Birthdays are good for you; the more you have, the longer you live.

Ever notice that the people who are late are often much jollier than the people who have to wait for them?

If ignorance is bliss, why aren't more people happy?

You may be only one person in the world, but you may also be the world to one person.

Some mistakes are too much fun to only make once.

Don't cry because it's over; smile because it happened.

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