

The Inside Scoop On Second Mortgages

Your home: It's probably your biggest asset. Having a home to back you up when you need a loan is one of the greatest advantages of home ownership. In recent years, there has been a major increase in the amount of people looking to use their homes as a way to get access to extra money when they need it most. And one of the best ways to do this is through a second mortgage.

A second mortgage is exactly what it says it is—a loan made *in addition to your first mortgage*, and it's based on the amount of equity you have built into your home. Many people use second mortgages to fund home renovations or improvements, to pay off credit cards and other debt, or to put a child through college. Since you've already been through the process once, the underwriting required to get a second mortgage is usually much simpler than it was the first time around, and the cost of the transactions involved will usually be significantly lower (*call our office for more details*). This usually makes up for the fact that interest rates on the second mortgage are a bit higher than they were on the first one.

On a second mortgage, you will borrow a fixed sum of money against your home's equity, and pay it back over a specified amount of time. The amount you borrow will be combined with the amount you still owe on your first mortgage.

While it may all sound pretty simple, there are just a few things to keep in mind: First of all, you may not want to take out a second mortgage on your home unless you've built up a fair amount of equity in the property already—that is, made payments on the original mortgage balance for a fair amount of time. You may still be able to get a second mortgage even

if you don't have much equity in your home, but your interest rate may be slightly higher, and the amount you can borrow a little lower, but there are also a lot of factors to consider (*contact our office for more details*). But most people agree: Second mortgages are one of those things that are usually well worth waiting for.

Also, you should look into the other options of borrowing against the equity of your home, including a home equity loan and a home equity line of credit. All of these options allow you to borrow against your equity, but there are slight variations among them that mean one of the three may be the best option for you. It will depend, for the most part, on your particular financial standing, the amount of money you need to borrow, and the amount of home equity you currently have.



For more information on second mortgages, home equity loans, and home equity lines of credit, and which may be best suited for you, contact our office today!

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What's Better Than FREE Money for Buying a Home? How About a FREE Down Payment?

HUD Secretary Shaun Donovan recently announced that FHA will allow lenders and government agencies to "monetize" the \$8,000 federal homebuyer tax credit, providing purchasers with downpayment cash upfront, available at closing, rather than waiting for the IRS to mail them a tax credit check.

Speaking at a conference of the National Association of Realtors®, Donovan said HUD supports "bridge loan" programs designed to help first-time homebuyers come up with needed cash. Under the bridge loan concept, an FHA-approved private lender, a state or local housing agency, or an FHA-approved nonprofit organization could advance as much as \$8,000 for downpayment and closing costs—in anticipation of receipt of the \$8,000 credit months or weeks down the road.

According to some industry insiders, half of all would-be first-time buyers lack the downpayment resources needed to complete a purchase, and therefore aren't making use of the credit.

Donovan said technical instructions to lenders for the bridge loan program would be provided by the FHA. Most of the programs provide second liens with no interest charges for a period of months, with the expectation they'll be paid off immediately after the homebuyers receive their IRS credit checks.

In the wake of Donovan's announcement, major mortgage lenders are likely to gear up their own programs, bringing bridge loans for first-time buyers to all 50 states.

However, anyone who wants to take advantage of all this *needs to move*

fast. Under the federal tax credit rules set by Congress, purchasers must close no later than November 30, 2009 to be eligible. And they must not have owned a principal residence at any time during the three years preceding their purchase.

Contact our office today for more information!

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10 Suggestions for Trimming Your Budget!

So where do I start? If that's the first thought that comes to your mind when it comes to changing your lifestyle, you're not alone. It's tough to change habits that may have become a way of life for you. If you're not sure which habits are hitting your budget the hardest, we've put together 10 suggestions to help trim a little off the top.

1. Write Down Everything You Spend.

It sounds elementary, but you'll notice the waste in your daily spending when you have each purchase written down in front of you. You can create a spreadsheet in Microsoft Excel or purchase personal financial software such as Quicken[®], which does the math for you.

2. Pay Off Your Credit Card Debt as Quickly as Possible.

Keeping a high balance on your credit cards will cost you a lot of money in interest every month. Focus on paying off your high-interest credit cards first before anything else. If you have a savings account, consider allocating a lump sum of savings to your card—chances are you're losing more money in credit card interest than you're earning in interest on your savings account.

3. If You Have More Credit Card Debt Than You Can Pay Off Immediately, Roll the Balance Over to a Zero-Interest Card.

We all get countless credit card applications in the mail every month. Start looking for cards advertising 0% interest on balance transfers for a long period of time—aim for 12 months or more. When you do this, calculate how much you will need to pay toward the card every month in order to have the balance paid off before the introductory period expires. Make sure you pay it off in that time! If you don't pay it off within the introductory 0% interest period, some credit card companies will charge your account with all of the interest you would have accrued during your introductory period in one lump sum when your 0% period expires. Before you transfer your balance, ask your credit card representative if the interest is deferred until after your introductory period.

4. If You Can't Pay With Cash, Don't Buy It!

This is where lifestyle habits come in. Ask yourself this question when you're distracted by a large purchase. If you can't afford to pay for an item in full up front, don't purchase it. Interest on a credit card will only cost you more in the long run.

From the Inside: Three Mortgage Questions

1. "What closing costs will I have to pay?"

Closing costs vary based on a number of factors—including the lender, mortgage type, purchase contract, and location—but they usually include the following:

- **Lender fees.** Your mortgage company may charge for expenses related to making the loan, including an appraisal fee, a credit report fee, origination points, and discount points.
- **Third party fees.** Charges for services not provided by your lender may include the settlement fee, title insurance, and attorney's fees.
- **Prepaid items.** Certain mortgage costs must be paid to your lender in advance. The most common of these are pre-paid interest, hazard insurance, and deposits to set up an escrow account.

2. "Should I pay discount points?"

Discount points are prepaid interest, which you can pay to your lender at closing in exchange for a lower interest rate on your mortgage. Paying discount points, each of which is equal to 1% of the loan amount, is often called "buying down" your rate.

So does paying points make sense for you? The answer depends primarily on

5. Bring Coffee From Home Instead of Buying It.

Yes, we know you love your daily cup of Starbucks[®], but it's a small change that can add up fast to a lot of savings. If you spend just \$3 a weekday, you could save up to \$780 a year (!) by using coffee from home.

6. Give Up Smoking (or at least cut back).

At \$4 or more per pack, cutting out one pack a day will save you at least \$1,460 per year! The best part? If you quit smoking all together there's a ripple effect that could lower your health and homeowner's insurance premiums.

7. Eat Out Less.

A family of four can rarely get out of any sit-down restaurant for less than \$30. Even pizza to feed that family can cost up to \$30 with salad, soft drinks and delivery. If you cut out one restaurant visit a week, you'll save \$1,560 per year!

8. Bring Your Lunch to Work.

Spend seven dollars a day and "let's do lunch" turns into \$1,820 per year!

9. Energy Efficiencies Can Save You Hundreds of Dollars Per Year.

If the air conditioning is on so high that you're throwing on a sweater when you walk into your house, your practices may be a little counterproductive. Raising the temperature just a couple degrees can make an impact on your bill. In the winter, consider lowering the heat a couple degrees. Put in storm windows and caulk around your interior windows. Is your energy bill nothing short of electrifying (and not in a good way)? Most local household supply stores now carry energy efficient light bulbs. They may seem a little more expensive up front, but you'll notice that they last longer than regular light bulbs, and they can help lower your energy bill significantly over time.

10. Join a Sam's Club or Costco.

The benefit here is that you're buying items in bulk—which means you're going home with about 12 more rolls of paper towel than you had needed, but you paid less per roll than you would at the supermarket. The trick? You have to work the shopping trip into your grocery budget. Know how much you can spend at the grocery warehouse every month ahead of time in order to avoid over spending.

how long you plan to stay in your home. First, find out how much lower your monthly payments will be if you pay points. Then, calculate how long it will take for those monthly savings to add up to the cost of the points. If it would take five years to break even and you're planning to live in your home for 10 years, paying discount points may be a smart move.

3. "Should I choose a fixed-rate or adjustable-rate loan?"

Most mortgage loans have either a fixed interest rate or an adjustable interest rate. With a fixed-rate mortgage, the interest rate never changes and your payments remain stable throughout the life of your loan. With an adjustable-rate mortgage (ARM), the interest rate changes at regular intervals—usually once every year—based on a formula that uses a market index. For most ARM options, rate adjustments begin after an initial period—usually between three months and ten years—during which the rate is fixed.

A fixed rate is usually recommended if you plan to stay in your home for the long term and are buying at a time when rates are relatively low. An ARM is usually recommended if you plan to move before the rate adjustments begin, or if you are buying when rates are relatively high.

