

HOMEFRONT

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Realtor News

Healthy Financing is Still Available — From a Trusted Source

If you took every recent media report on the mortgage industry at face value, then you might think you could never get financing again. But the truth is that affordable financing is still available—and from a very familiar source.

The FHA—Federal Housing Administration—is back. In reality, they never went away. Affordable loan programs from the FHA have been helping people buy the home of their dreams for over 70 years.

But when the subprime mortgage industry collapsed under its own weight last year, the news media was quick to report that the entire lending industry was in deep trouble. In truth, this is simply not the case.

Flashy advertising fed the subprime frenzy in the early 2000's. Exotic new loan programs lent money to many people who couldn't afford to pay the money back. To make things worse, the loans were often based on speculative property values. This bad mix caused an implosion in 2007 that fed a frenzy of bad news.

What the media doesn't report is that since 1934, the FHA has been the steady source of insured loans for hundreds of thousands of Americans. These loans are not cycle-driven like the rest of the mortgage industry. What this means is that FHA loan underwriters look at your payment history, not the state of the market. If you haven't had any late payments in the last 12 months, then you can find some incredible loans through the FHA.

You're also not hearing about the recent resurgence of VA (Veterans Administration) loans. With so

many American soldiers returning from overseas duty, demand for affordable home loans is on the rise. Like FHA loans, VA loans provide a level of security for families who might not qualify for a traditional bank loan.

FHA and VA loans provide many positives for hard-working American families and veterans:

- No reserves are required.
- Sellers may pay closing costs.
- You only need 3% down in some cases, and a portion of the 3% can be in the form of a gift from a relative (this is not allowed in a traditional bank loan).
- Monthly payments are typically lower than a bank loan.

So, don't buy into the false rumor that you can't find good financing anymore. With so many options available, many Americans are finding fantastic opportunities for home ownership through the FHA and VA.

I HOPE YOU'RE
ENJOYING SUMMER!!!
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Mortgage Mistakes

Don't Rush to Pay Off That Mortgage

You've got better things to do with your money, like saving for retirement, building an emergency cushion or even living it up a little. You normally don't think of people who prepay their mortgages as being wasteful or careless. But a recent study suggests these households blow more than \$1.5 billion a year, or \$400 per household, by accelerating their mortgage payments instead of contributing more to their retirement accounts.

The research found that at least 38% of those who were making extra payments on their mortgage were "making the wrong choice." Instead, these households would get back 11 to 17 cents more on the dollar by putting the money into a workplace retirement plan like a 401(k).

If anything, I think the study underestimates how many people make a mistake by prepaying their mortgages. It didn't look at folks who were accelerating their mortgages while carrying higher-rate debt, or who failed to have an emergency fund, or who didn't have adequate life, health or disability insurance. Most people, in short, have much better things to do with their money than to pay off a low-rate, tax-deductible loan.

The urge to be free of debt

Mortgages tend to be some of the cheapest money you can get, and, as mentioned earlier, the interest is often deductible. If you're in the 25% federal tax bracket, that 6% interest rate may be costing you as little as 4.5% if you itemize. Even if you don't get any tax break at all on your mortgage, though, the rate is still dirt cheap compared with that on most other loans.

Establish priorities

You need to look first at all your other debt. Chances are if you have any, it's accruing at a higher interest rate than what you're paying on your home loan. That's especially true for credit card debt: It makes no sense to save less than 6% by prepaying a mortgage when you're paying 15%, 20% or even more on your plastic.

What if you're free of other debt, you can start to tackle that mortgage, right? Not quite. Max out your 401(k) and Roth IRAs. Tuck more away into a 529 college savings plan to make sure they aren't saddled with students loans, as too many young graduates are today.

Again, assuming the money is invested prudently in a mix of stocks, bonds and cash, you should make a much better return than what you can get prepaying your mortgage, and the money is tax-free when used for college.

There's a final, much more subjective issue to address. Some of the folks I've run into who are determined to pay off their mortgages early are what I've come to consider "oversavers." They're putting aside prodigious amounts for all kinds of future goals, but spending precious little today.

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NWMLS Statistics for King, Pierce, & Snohomish Counties
Month of January, 2008

	Closed Sales		Median Sale Price		% Change In Sale Price	Market Time
	2008	2007	2008	2007		
Residential						
King	1037	1558	\$ 435,000.00	\$ 429,495.00	1.28%	83
Snohomish	472	711	\$ 365,000.00	\$ 370,700.00	-1.54%	93
Pierce	496	779	\$ 266,398.00	\$ 272,500.00	-2.24%	97
Condo						
King	366	635	\$ 270,500.00	\$ 274,900.00	-1.60%	74
Snohomish	107	158	\$ 224,999.00	\$ 233,514.00	-3.65%	84
Pierce	67	109	\$ 205,000.00	\$ 224,000.00	-8.48%	96

Sometimes they're even straining family relationships by their single-minded focus on being debt-free as early as possible. We need to strike a balance between saving for tomorrow and living today.

All that said, I'm not one of those pundits who insists that no one should ever pay off a mortgage. I think retiring the home loan by the time you retire is a good goal. Just make sure it takes its proper place with all your other goals -- and that you get to live life a little along the way.

I welcome your phone calls, emails, comments, and questions regarding all of your real estate needs. I am never too busy to help you in any way I can.