

MORTGAGE NOTES from the Money Desk



Fall 2010

O Joy, here is my late-summer newsletter from my Mortgage Broker, James Argo, again.

Brought to you by



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Here is the question for 2010: Why refinance?

Well, here are seven good reasons to refinance a mortgage, and you can probably think of the first one—to get a lower mortgage rate.

According to the Bureau of Economic Analysis, the average interest rate on an outstanding mortgage at the beginning of 2010 was 5.979 percent. However, my lenders today are offering rates well below that benchmark, making a refinance a no-brainer for many.

So, clearly the number 1 reason to refinance is to get a lower mortgage rate, yet despite sinking rates, a lot of people have not refinanced.

Many homeowners would like to refinance but can't because, due to falling home values, they have little or no equity. (We also have special government-sponsored loan programs, quite good ones, for clients at perhaps 105 percent loan to value.) Yet there are so many people who can do it in the standard way, and amazingly, some folks simply get so into whatever they're doing in life that seems to be urgent that they don't pay attention to the very important and fleeting opportunity of where rates are—right here and right now.

So I am here to let you know: **Rates are at record lows.** There!

But low mortgage rates per se are not the only motive for refinancing a home loan nowadays. The following are some other very good reasons to consider a new home loan:

1. Stability-hungry borrowers are ditching adjustable-rate mortgages and refinancing into long-term fixed-rate loans.

Everyone is concerned, prudently so, about long-term inflation, so if someone has an adjustable loan, that's the number 1 reason for getting out of them. Not because you can get a

lower rate, but because you can get a stable rate.

2. Other borrowers find benefits in the swing from one hybrid ARM to another.

I have done a few of these for people who were in, say, a five-year ARM that they originated four years ago. It was getting ready to adjust, and even though the rates were about to adjust downward, they got new Hybrid ARMs to extend their low rates for another 5 or 7 or 10 years. Frequently, my clients do not need a loan for all of 30 years because they know they will be paying it off, moving away, or downsizing long before any scheduled rate change would occur.

3. This example isn't technically a refinance, but it is quite close: Mortgage-free homeowners sometimes get a new mortgage because this is an opportunity to put cash in their pockets.

Believe it or not, there are a lot of people who do not have a mortgage on their property. But maybe they want to buy a second home or their retirement home with the cash. Their strategy is to get cash out of their first home, take the funds, and go shop for real estate. That means they won't need a financing contingency on the next purchase, and they're in a far stronger position to bargain.

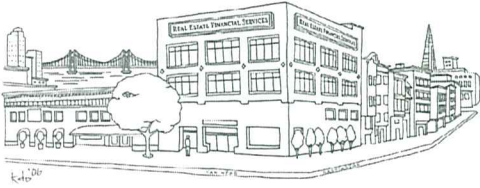
They could also take out a mortgage on a paid-off property to start a business or for other reasons.

When house prices were rising by 10 percent or more a year, millions of borrowers got cash-out refinances. They refinanced for more than they owed, got cash, and spent or invested it.

The cash-out refinance craziness ended when the housing bust hit the lending sector

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Why refinance? (continued from front page)

in 2008. But there are still cash-out refinance scenarios that make absolutely good sense. And yes, do employ good sense.

4. Some clients are cashing out in order to pay off credit cards, for example.

Happily, it is not like a few years ago when people took cash out to buy things, like a pool, a car, or an RV. It is more to be paying down debt, lowering their debt service.

This is about saving money. That's a thoughtful strategy because many consumers have unpleasantly discovered that credit card payment terms are quite changeable and subject to the whim of their creditor.

5. One thing that's an emerging trend now is that my more savvy clients are taking money out to purchase other properties. In this case, I mean to buy an investment property.

Refinancing to buy property can bring up unexpected tax and mortgage underwriting issues. So a lot depends upon how the refinanced house and the new property will be used.

For example, which property will be the primary residence? Will the other property be rented out? Those are issues for a financial adviser or tax professional to untangle. I know some excellent people in those fields, so feel free to ask me to share their contact information with you so you can be counseled by the experts.

6. Some homeowners want to combine their existing home equity line of credit with their new first mortgage.

I'm seeing people, even if the rate on their current home equity line of credit is 3 percent, refinancing to get rid of it—just close it out. But why get rid of a loan with such a nice low rate? Because looking forward, and they're worried about five years from now, what if that rate jumps up to 11, 12, or 13 percent?

7. Divorce often leads to a refinance as the means of removing the absent former spouse from the Note.

This scenario has less to do with rates and is more about timing, and definitely requires careful consulting.

At the risk of sounding like a broken record, these mortgage interest rates should call everyone's attention to this special and unique moment in time. This is an immense opportunity for leveraging, for making use of other people's money.

Take a look at this Web site link www.homepath.com/state/ca.html and see if there is a FNMA inventory property listed therein that might interest you or someone you know. Most of them are available with normal financing and just a 5 percent or 10 percent down payment with no mortgage insurance at all.

We can show you how to make it pay; give me a call.

A positive uptick in activity

I'm having discussions with more investors recently who clearly see the opportunity of using the cash from inexpensive fixed-rate loans to acquire additional real estate for investment. These are the clients I call 'the quiet achievers.' They assess their financial situation and borrowing capacity with me, they study the market for solid opportunity, and then take action.

Years from now, and not too many years from now, they will congratulate themselves for their timing, their prudence, and their vision.

We can help you get this done, too.