# Newsletter - Vol. 2 Issue 8

## Autumn 2005

mortgagestraightTalk.com



Tel: 760-726-4600 Cel: 760-717-8584

Fax: 760-639-0785

Rod@MortgageStraightTalk.com


**Morty's Bench Marks - 9/28/05**

| | |
|---|---|
| 30 Yr. Fixed Conf. | 5.875% |
| 30 Yr. Fixed Jum. | 5.875% |
| 5/1 ARM Conf. | 5.25% |
| 5/1 ARM Jumbo | 5.25% |
| Prime Rate | 6.75% |
| MTA | 3.019% |
| COFI | 2.757% |

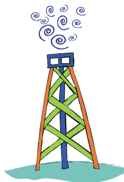
*Above rates assume 30 day locks priced at par, that is, at wholsale with no rebate.*

## Happy Halloween!

Have I got a scary story for you, this month. If you think that there was a major disconnect between Federal and State government's response to the disaster victims of Katrina, there's a replay occurring between the Executive and Legislative branches and the Fed.

## RECENT EVENTS

On September 20th when the Fed Open Market Committee (FOMC) last met, it raised the Prime Rate another ¼ point to its current rate of 6.75%, the highest in 4 years. The statement that the Fed issued suggested that more rate hikes are on the way, saying it believes the effects of Hurricane Katrina on the economy are temporary. The rate increase was the 11th straight increase since June 2004.



## WHO'S BUYING LUNCH?

Meanwhile, President Bush and the Congress appropriated $62 billion to rebuild the Gulf Coast states, which with subsequent aid may total to as much as $200 billion.

The problem is that neither he nor they have indicated how this was to be paid for. Mr. Bush ruled out tax increases as a means to cover the reconstruction of Katrina's aftermath in his speech a day after visiting New Orleans. The War in Iraq continues to drag on which has cost taxpayers approximately 197 billion thus far. Yet, seemingly oblivious to all of this, congressional leaders are pushing ahead for further tax cuts for the wealthy (about half of those cuts would flow to people making more than $1 million a year) of up to $70 billion over the next five years. I know you didn't hear it here first but, "there is no such thing as a free lunch".

## OIL UP, INFLATION UP

There had been substantial speculation that the Fed might pause in its program of measured increases because many felt that the risk of an economic slowdown from Katrina was greater than the risk of higher inflation. But the FOMC evidently didn't see it that way. The Fed appears to be far more concerned about the specter of inflation and rising energy prices. And rightly so. With the price of oil hitting a high of $70/barrel earlier this month there is an inflationary effect on everything being

transported whether its you to and from work (gasoline) or to another city (airline fares) or the price of tomatoes (being trucked to market).

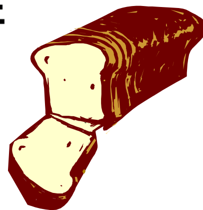
## THE "NEUTRAL" ZONE

The Fed is aiming for the so-called "neutral" target for interest rates, a level meant to keep prices in check without jeopardizing economic growth. Several bond managers believe that a "neutral" Fed funds rate is probably between 4-4½%. In other words, at least one more quarter-point hike is likely in November and there could be two more after that at its December and January 2006 meetings. This would translate to a 7-7 ½% Prime Rate.

## INVERTED YIELD CURVE = TROUBLE?

But some are worried that if the Fed keeps raising short-term rates even as the yield on the 10-year Treasury falls, then the yield curve could invert, meaning short-term bond rates move higher than long-term rates, which is often a harbinger of a recession. Scared, yet?

## THIS ISSUE'S TOPIC—THE BEST (MORTGAGE) PRODUCT SINCE SLICED BREAD--



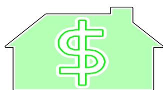
## THE HOMEOWNERSHIP ACCELERATOR

I rarely tout new products here in the newsletter but this is one of those times I'm going to make an exception.
How would you **like to pay off your 30-year mortgage in 15 years or less? Even if interest rates were to double.** I know what many of you are thinking, however, this is not a bi-weekly program or a low start-rate program

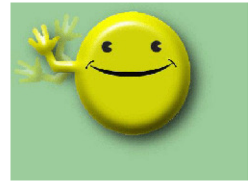
Instead, it's a Line of Credit (LOC), not a conventional mortgage. In brief, it functions much like an interest bearing checking account: **the interest earned on your residual checking account balances, in conjunction with the direct deposit of your paycheck, helps to significantly lower your interest payments and thereby accelerate your payoff time by about 50%.** The impact is so great that it offsets the effects of compound interest were current interest rates to double. Also, if you have liquid accounts (such as a savings account, short-term CD or checking account) that are not earning 5-7% (the interest rate range of most mortgages), it's an outstanding place to park these funds because they will further accelerate the pay-off of your principal balance. The other **major benefit is that while you're lowering you loan balance you still have access to the original amount of your credit line. The only thing you have to lose is years off your mortgage.**

If this sounds innovative, it is, here, in America. But, it's been used since 1990 in Great Britain and Australia. In fact one out of every 3 homes purchased in Britain utilizes this type of program and 100 billion dollars worth of real estate is financed this way in Australia. The program is backed by GMAC with assets of 5 billion dollars. You are also provided with on-line banking services such as free checking, bill-pay and a Visa point of sale (credit/debit) card for your account.

As good as this is, it's not for everyone. There are some provisos. To qualify **one must have a minimum FICO score of 680.** This program applies to **only primary residences and second homes**, no investor properties. It is a first lien position instrument with he maximum loan amount being $1,000,000 and the **max LTV is 80%**. The program is **good for both purchases for re-fis**. The borrower's Debt To Income **(DTI) may not exceed 48%**. Moreover, this program is **only available as a full-doc loan program**, no stated incomes. Further, it **does require direct deposit** of one's paycheck.




It's ideal for people whose income might vary such as small business owners, or people who receive bonuses or commissions or those who have a substantial positive cash flow. There is **no change required in one's spending habits. Unlike the "no free lunch" which I alluded to earlier, this is one situation that in all likelihood you will have heard about here first because I am one of a handful of mortgage brokers that is certified to offer them.**



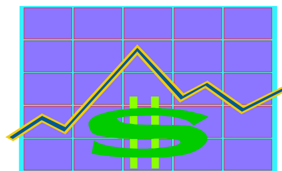
**ASK MORTY**

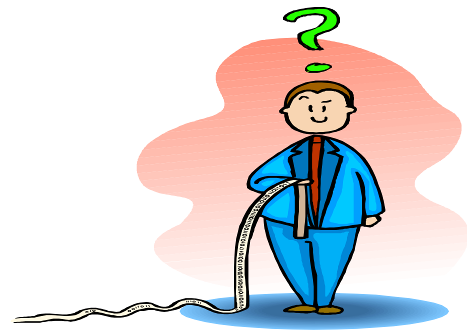
Q. Are the points paid to obtain a mortgage deductible? My brother refinanced his home last year and he deducted the point(s) he paid off his taxes in April. It's my understanding that only a portion of it is deductible. Whose right?

A. Most likely, you are, but your brother might also be, in certain instances. Traditionally, the rule of thumb has been that writing off "points" (one point equals 1% of the loan amount) paid for a home loan only applied to a purchase transaction. If an individual paid points in connection with a refinance transaction, the points could not be deducted in one lump sum, but instead amortized over the term of the loan. For example, if you refinanced a $300,000 30-year mortgage and paid one point, the $3000 would have to be spread out over the 30 year term. The deductible amount would be 1/30th each year or $100 per year. If your tax bracket were 33%, the tax savings would be a measly $33 per year. But, if the entire $3000 could be written off in the tax year paid and not spread out over the term of the loan, the the tax savings could increase significantly from $33 to $990 ($3000 X 33% = $990). A recent tax court case, however, may provide the necessary loophole for your brother and allow him to write of points paid on a refinance transaction.

In a recent case brought before the United States Tax Court (Hurley 2005-125), the court ruled that the points paid for refinancing a property were tax deductible due to certain criteria being met by the Hurley's. The case was brought to the Tax Court with the argument that the points paid for the home loan allowed the Hurley's to obtain a lower rate, which resulted in a lower home loan payment. The monthly payment savings were in turn used for improvements to the property, including a new roof, carpet, and other repairs. Being that the Hurley's provided the documented proof of the improvements, the court ruled in their favor and allowed the points to be deducted from the Hurley's taxes…all in the year the loan was refinanced.

It is important to note that if you pay point to refinance a personal property, the points are **only** tax deductible if the refinance **creates a lower home loan payment and the savings will be used for improvements to the property; or if the refinance transaction is being done to purchase an additional property.** And as always, consult your mortgage and tax professional regarding your own specific situation to ensure that you meet the criteria needed for a deduction of this type.





Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. (See front of issue for phone and fax numbers). Morty's email address is....
Morty@MortgageStraightTalk.com

**NEXT ISSUE'S TOPIC Fully-indexed ARMs and deferred interest loans**