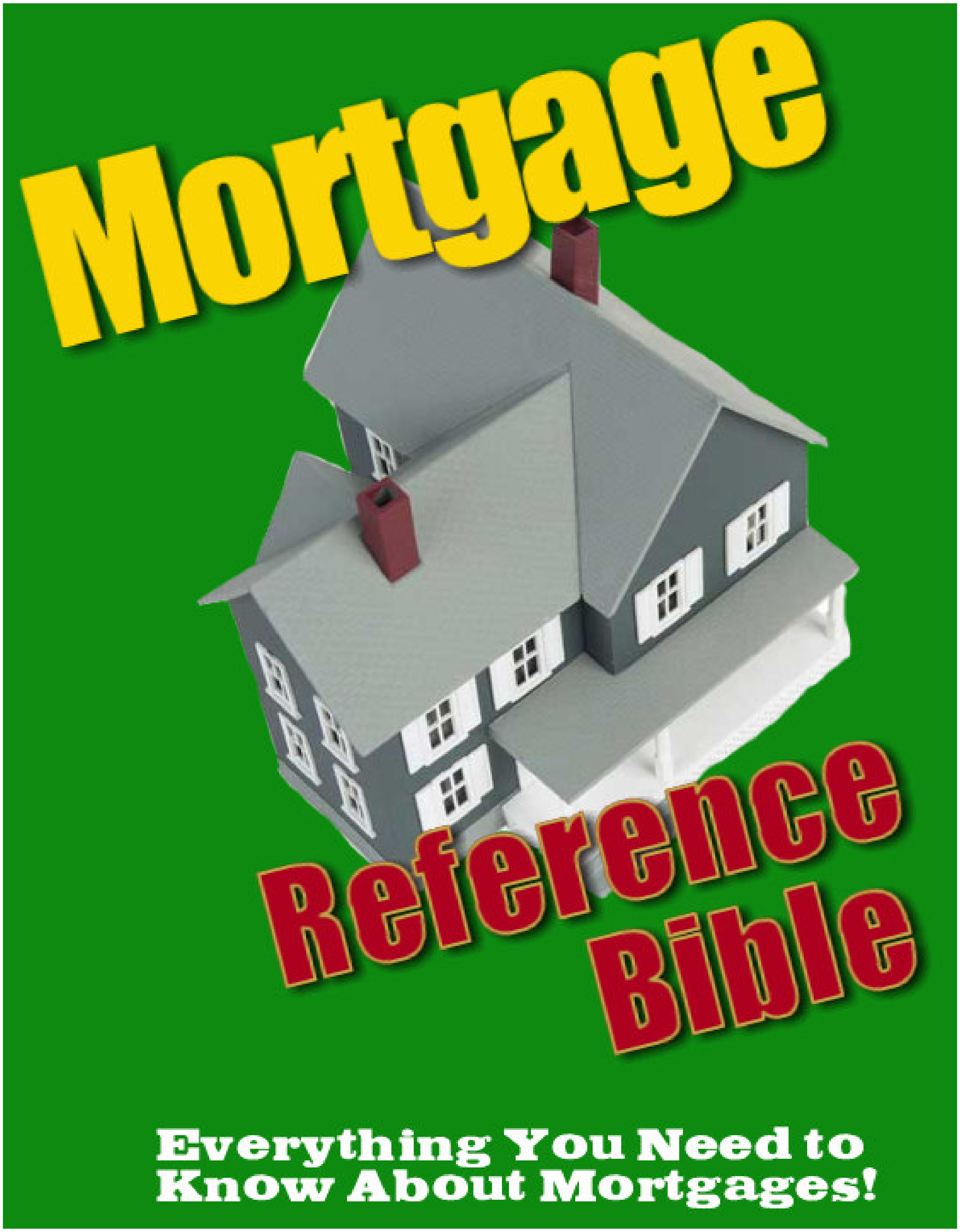
Mortgage
Reference
Bible
Everything You Need to
Know About Mortgages!

# Mortgage Reference

Disclaimer: Information presented in this guide is for education and informational purposed only and it is not legal or other advice. Always seek help from licensed professional before making any decision.

This 50 set series on mortgage products, pertinent information, the financial tools that mortgages can be, and how to determine if a mortgage is right for you is a comprehensive collection of information on just about any mortgage topic a reader might be interested in exploring. The topics range in information for the average consumer to the wealth-building investor. Articles covering government lending programs, products and explanations of the basic terms used by lenders are sure to provide the reader with enough information to form educated opinions and begin the mortgage process with confidence.

So, as you begin your journey through one of the most successful and complex processes known to exist, you should remember that we live in a country where homeownership is believed to be a right, and a mark of our advance as a nation. No where else in the world is home ownership as prevalent as here, in these United States.

Individual's seeking to secure a home with the funds secured from a mortgage loan should take a moment to educate, and evaluate all the varied products available through the numerous lending institutions. The following articles will begin with an overview of the more popular mortgage programs, and advance you through a maze of situations, scenarios, and complex relationships.

## Mortgage Products: The 15 Year ARM

As you begin to traverse the actual home appraisal, the loan amortization, your down payment, and all the dots that must be connected in order to make the dream a reality, you suddenly realize that you may not be able to afford a payment on the Fixed Rate Mortgage plan. What other options are available? Well, there's the Adjustable Rate Mortgage that is a close first cousin to the Fixed Rate mortgage, just a little riskier. What products are available with the Adjustable Rate Mortgage? What advantages does the Adjustable Rate Mortgage option offer, and what are they drawbacks, if any? This article examines the advantages and disadvantages, if any, of the Adjustable Rate Mortgage and the 15 Year ARM option.

The Adjustable Rate Mortgage, or ARM, is a more affordable option for homeowners who have a fairly tight monthly budget, and who have a need for bigger house, lower payment. The typical ARM customer wishes to build equity in their home; however they need the lowest monthly payment possible, for a certain number of years. The homeowner this program most benefits is the individual who expects income increases to occur within a few short years, but also has an expanding family with a need for space. The 15 Year ARM is one of the more used ARM options, simply because of the attractive monthly payment, and the length of time the homeowner has to build more equity in an affordable payment.

An ARM works in this way: when you set up your mortgage on an ARM, the interest rate you have will only be set for a very short period of time, normally only 6,9, or 12 months. At the end of that period, the interest rate will be re-evaluated, and if the rates have increased based on the prime, your interest rate will also increase; once again, for a short, set period of time. The benefit derived from this type of loan, during today's economy, is that the interest rates are at an all time low. That equates to big savings for current home buyers, and homeowners who refinance.

The 15 Year ARM allows the mortgage loan to operate as an adjustable rate mortgage for 15 years, automatically converting to a fixed rate loan after that 15 year period has expired, for another 5, 7, or 10 years.

The disadvantage to this type of loan occurs when interest rates begin to rise. As the rate rises for the lending institution, it also rises for you, the homeowner. The home mortgage product market can be very confusing, and quite frustrating if you don't take the time to fully research and understand your mortgage options.

Another great benefit to the ARM, when interest rates are low, is that it allows you to build equity faster than with a standard fixed rate mortgage. But if interest rates begin to rise, quickly, your opportunity for building equity quickly, is greatly diminished, because more of the payment is directed to the interest on the loan. If you fall into the category of the typical homeowner, ARMs aren't as attractive as the fixed rate mortgage; but let's face it the typical homeowner category seems to be shrinking.

All in all, if you are buying a home, and your income level is expected to increase over the next 10 years, or your expenses are going to drastically decrease, you would probably benefit from the standard 15 Year ARM that converts to a FRM. All the other complicated options still simply do not benefit the average homeowner today. Now, if you don't happen to be average, and you have a financial advisor that can work with you closely, I'd recommend that you consider all those other options, but only with the assistance of a trained financial analyst. After all, your home is a purchase you definitely do not want put at risk. The 15 Year ARM is a good, solid product that allows the homeowner to build equity, with a low interest payment each month, while also providing the lending institution the opportunity to reset an interest rate, if they should begin to rise quickly. This is one of the greatest reasons banks tend to promote the ARMs as much as they do the standard FRMs: they're fairly safe, time-tested products.

## Mortgage Products: The 20 Year ARM

As you begin to traverse the actual home appraisal, the loan amortization, your down payment, and all the dots that must be connected in order to make the dream a reality, you suddenly realize that you may not be able to afford a payment on the Fixed Rate Mortgage plan. What other options are available? Well, there's the Adjustable Rate Mortgage that is a close first cousin to the Fixed Rate mortgage, just a little riskier. What products are available with the Adjustable Rate Mortgage? What advantages does the Adjustable Rate Mortgage option offer, and what are they drawbacks, if any? This article examines the advantages and disadvantages, if any, of the Adjustable Rate Mortgage and the 20 Year ARM option.

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The 20 Year ARM allows the mortgage loan to operate as an adjustable rate mortgage for 20 years, automatically converting to a fixed rate loan after that 20 year period has expired, for another 5, 7, or 10 years.

The disadvantage to this type of loan occurs when interest rates begin to rise. As the rate rises for the lending institution, it also rises for you, the homeowner. The home mortgage product market can be very confusing, and quite frustrating if you don't take the time to fully research and understand your mortgage options.

Another great benefit to the ARM, when interest rates are low, is that it allows you to build equity faster than with a standard fixed rate mortgage. But if interest rates begin to rise, quickly, your opportunity for building equity quickly, is greatly diminished, because more of the payment is directed to the interest on the loan. If you fall into the category of the typical homeowner, ARMs aren't as attractive as the fixed rate mortgage; but let's face it the typical homeowner category seems to be shrinking.

All in all, if you are buying a home, and your income level is expected to increase over the next 10 to 15 years, or your expenses are going to drastically decrease, you would probably benefit from the standard 20 Year ARM that converts to a FRM. All the other complicated options still simply do not benefit the average homeowner today. Now, if you don't happen to be average, and you have a financial advisor that can work with you closely, I'd recommend that you consider all those other options, but only with the assistance of a trained financial analyst. After all, your home is a purchase you definitely do not want put at risk. The 20Year ARM is a good, solid product that allows the homeowner to build equity, with a low interest payment each month, while also providing the lending institution the opportunity to reset an interest rate, if they should begin to rise quickly. This is one of the greatest reasons banks tend to promote the ARMs as much as they do the standard FRMs: they're fairly safe, time-tested products.

## Mortgage Products: The 30 Year ARM

As you begin to traverse the actual home appraisal, the loan amortization, your down payment, and all the dots that must be connected in order to make the dream a reality, you suddenly realize that you may not be able to afford a payment on the Fixed Rate Mortgage plan. What other options are available? Well, there's the Adjustable Rate Mortgage that is a close first cousin to the Fixed Rate mortgage, just a little riskier when it comes to establishing the interest rate. What products are available with the Adjustable Rate Mortgage? What advantages does the Adjustable Rate Mortgage option offer, and what are they drawbacks, if any? This article examines the advantages and disadvantages, if any, of the Adjustable Rate Mortgage and the 30 Year ARM option.

The Adjustable Rate Mortgage, or ARM, is a more affordable option for homeowners who have a fairly tight monthly budget, and who have a need for bigger house, lower payment. The typical ARM customer wishes to build equity in their home; however they need the lowest monthly payment possible, for a certain number of years. The homeowner this program most benefits is the individual who expects income increases to occur within a few short years, but also has an expanding family with a need for space. The 30 Year ARM is one of the less used ARM options, simply because of the length of time before expiration; generally, homeowners will seek to establish a set interest rate before the 30 year term is over.

An ARM works in this way: when you set up your mortgage on an ARM, the interest rate you have will only be set for a very short period of time, normally only 6,9, or 12 months. At the end of that period, the interest rate will be re-evaluated, and if the rates have increased based on the prime, your interest rate will also increase; once again, for a short, set period of time. The benefit derived from this type of loan, during today's economy, is that the interest rates are at an all time low. That equates to big savings for current home buyers, and homeowners who refinance.

The 30 Year ARM allows the mortgage loan to operate as an adjustable rate mortgage for 15 years, automatically converting to a fixed rate loan after that 15 year period has expired, for another 5, 7, or 10 years.

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All in all, if you are buying a home in your early thirties, your income level is expected to continually increase over the next 15 years, and your expenses are going to drastically decrease, you would probably benefit from the standard 30 Year ARM that converts to a FRM. All the other complicated options still simply do not benefit the average homeowner today. Now, if you don't happen to be average, and you have a financial advisor that can work with you closely, I'd recommend that you consider all those other options, but only with the assistance of a trained financial analyst. After all, your home is a purchase you definitely do not want put at risk. The 30 Year ARM is a good, solid product that allows the homeowner to build equity, with a low interest payment each month, while also providing the lending institution the opportunity to reset an interest rate, if they should begin to rise quickly. This is one of the greatest reasons banks tend to promote the ARMs as much as they do the standard FRMs: they're fairly safe, time-tested products.

## Mortgage Products: The 15 Year FRM

In order to understand the theory behind the fixed rate mortgage, you have to understand the mindset of the mortgage banker and the mortgage borrower of thirty or forty years ago. The Great Depression left a tremendous impression on the minds of this country, so much so, that one of the popular mortgage products of the turn of the century, the interest only loan, was shelved, never to be heard from again. Not until the recent explosion in real estate prices and the mortgage industries efforts to accommodate home buyers of all types has there been such mortgage variety.

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The banker, offering the mortgage loan, was assured of a 20% down payment and a secure monthly payment with a fixed interest rate that would benefit the bank. The homeowner received a set monthly payment amount that was affordable, and a fixed number of years to repay the loan, usually 15, 20, or 30.

This article will discuss the 15 year fixed rate mortgage, and the advantages offered by the 15 versus the 20 versus the 30 year option. We have really already established the "why" when it comes to the fixed rate mortgage option in general, but we need to look at now, the term of the fixed rate mortgage. "Why" would you choose the 15, or the 20, or the 30? Well it really depends on two factors: where you are in your life, and what you can afford.

If you happen to be in your 20s, with a lifetime to pay for your home, but not a lot of income, and two children to raise the 30 year option would get you the house, with as low a monthly payment as possible. Granted, you will pay more in interest, but you won't have to pay out quite as much each month. If money is tight, a lower payment can mean the difference between buying a home and renting a home.

If you're in your mid-to-late thirties, still quite a long way from retirement, the kids are almost grown, and your monthly income is substantially greater than it was 10 years ago, the 15 or 20 year mortgage would suit your needs. Most often, the homeowner will choose the 20 year option, and make principal payments when affordable.

But let's say you're in your late 40s and the amount of time until retirement is growing ever short; you have your children raised, and your monthly income is nice to look upon. What option would you take? For most, it is the opportunity to pay for the home as quickly as possible, thus the 15 year fixed rate mortgage is the mortgage of choice.

Many homeowners who purchase a home in their mid-to-late forties are purchasing their second home; some even have a substantial amount of equity, or down payment for the home. If this is the case, the 15 year fixed rate mortgage, works to an even greater advantage, in that the homeowner has substantial equity, a lowered monthly payment, and a preset monthly payment amount. The interest is tax deductible, and they are now secure in the knowledge that their home will be fully paid out prior to retirement.

When trying to decide which mortgage is the mortgage for your situation, you need to have a mortgage broker or banker that has an excellent understanding of your financial status, your goals and objectives for your mortgage purchase, and your ability to absorb unexpected expenses or change.  All of these factors affect your ability to repay a loan, the choice you will make on a loan, and the satisfaction you will have during the servicing of your mortgage loan.

For these reasons, and others, the fixed rate mortgage, especially the 15 year fixed rate mortgage is often the mortgage product of choice, especially for the baby boomers, and the forty-something homeowners today.

## Mortgage Products: The 20 Year FRM

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This article will discuss the 30 year fixed rate mortgage, and the advantages offered by the 15 versus the 20 versus the 30 year option. We have really already established the "why" when it comes to the fixed rate mortgage option in general, but we need to look at now, the term of the fixed rate mortgage. “Why” would you choose the 15, or the 20, or the 30? Well it really depends on two factors: where you are in your life, and what you can afford.

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For these reasons, and others, the fixed rate mortgage, especially the 30 year fixed rate mortgage is often the mortgage product of choice, especially for the young person today, fresh from college, with a starter home, a small family, and a tight budget.  Granted, there will be a greater amount of interest paid out over the life of the loan, but there's always the opportunity in 10 or 15 years to refinance the loan, and setup bigger payments, with less interest paid out over the life of the mortgage.  After all, the mortgage payment isn't the only expense associated with homeownership, and all the expense factors must be considered; new homeowners certainly do not want a crash course in credit problems!

## Mortgage Products: The Adjustable Rate Mortgage

You've found the home of your dreams, you're pre-qualified for a loan, and everything looks absolutely rosy.  At first.  As you begin to traverse the actual home appraisal, the loan amortization, your down payment, and all the dots that must be connected in order to make the dream a reality, you suddenly realize that you may not be able to afford a payment on the Fixed Rate Mortgage plan.  What other options are available?  Well, there's the Adjustable Rate Mortgage that is a close first cousin to the Fixed Rate mortgage, just a little riskier.  What advantages does the Adjustable Rate Mortgage option offer, and what are they drawbacks, if any?  This article examines the advantages and disadvantages, if any, of the Adjustable Rate Mortgage.

The Adjustable Rate Mortgage, or ARM, is a more affordable option for homeowners who have a fairly tight monthly budget, and who have a need for bigger house, lower payment. The typical ARM customer wishes to build equity in their home; however they need the lowest monthly payment possible, for a certain number of years. The homeowner this program most benefits is the individual who expects income increases to occur within a few short years, but also has an expanding family with a need for space.

An ARM works in this way: when you set up your mortgage on an ARM, the interest rate you have will only be set for a very short period of time, normally only 6,9, or 12 months. At the end of that period, the interest rate will be re-evaluated, and if the rates have increased based on the prime, your interest rate will also increase; once again, for a short, set period of time. The benefit derived from this type of loan, during today's economy, is that the interest rates are at an all time low. That equates to big savings for current home buyers, and homeowners who refinance.

The disadvantage to this type of loan occurs when interest rates begin to rise. As the rate rises for the lending institution, it also rises for you, the homeowner. Today, there are spin-offs on the ARM base product, that allow homeowners to operate under an ARM for a specified number of years, and then the loan converts to a fixed rate mortgage. There are also the ARMs that offer an interest only option for a specific number of years, then it converts to a basic ARM for a specified number of years, and then you have the option to convert the ARM to an FRM. The home mortgage product market can be very confusing, and quite frustrating if you don't take the time to fully research and understand your mortgage options.

Another great benefit to the ARM, when interest rates are low, is that it allows you to build equity faster than with a standard fixed rate mortgage. But if interest rates begin to rise, quickly, your opportunity for building equity quickly, is greatly diminished, because more of the payment is directed to the interest on the loan. If you fall into the category of the typical homeowner, ARMs aren't as attractive as the fixed rate mortgage; but let's face it the typical homeowner category seems to be shrinking.

There are so many options with the ARM basic model, that the ARM option loans have become more popular than just the basic ARM. The 3,5,7 and 10 year ARMs that offer interest only options for a set period of time, or that offer 1% interest for the first month, then there are the ARMs that offer interest only for 3,5,7, or 10 years, then a standard ARM is established, or a FRM is established.

The mortgage industry has made available so many mortgage choices, that it's often very difficult for the average consumer to consider all the options and make the most wise choice, simply because you need a spreadsheet and calculator just to compare the options, never mind making a decision about the best options.

All in all, if you are buying a home, and your income level is expected to increase over the next 10 years, or your expenses are going to drastically decrease, you would probably benefit from the standard ARM that converts to a FRM. All the other complicated options still simply do not benefit the average homeowner today. Now, if you don't happen to be average, and you have a financial advisor that can work with you closely, I'd recommend that you consider all those other options, but only with the assistance of a trained financial analyst. After all, your home is a purchase you definitely do not want put at risk.

## Mortgage Products: The Balloon Note

Ever been to watch the hot-air balloon in flight? It's an absolute beautiful sight. What is the down side to the hot air balloon? Unless all the conditions are just right, the balloon can crash, causing a life-threatening situation. The balloon mortgage note, can affect the same result, you just don't fall from the sky. You fall from the home. This article takes a look at the balloon mortgage note, and the situations it benefits, and the situations it does not.

Before you can discuss how well something does or does not work, you really should understand what it is. The balloon mortgage note allows you to borrow money to purchase a home, and establish an affordable monthly payment, often with a very good interest rate. The amortization of the amount borrowed may be for a 30 year term; however the life of the balloon mortgage generally does not exceed 72 or 84 months, 6 to 7 years. At the end of the balloon term, a huge "balloon payment" is due.

If you intend to sell your home within a 7 year period, the balloon note option is an excellent alternative that offers a lower monthly payment. But, what happens if you don't sell the home? Well you either must come up with the balance of the note, or find an alternative mortgage product. The biggest problem that this situation creates is your ability to deal with the variables in the situation, when the balloon note matures.

At the time the note matures, if the interest rates are high, or if the real estate market is experiencing a slump, you may be forced to accept a higher interest rate, or produce a very big down payment with a new note. Either way, the conditions aren't favorable for the homeowner.

What is the difference between the balloon note and the Adjustable Rate mortgage? Actually, quite a lot. The balloon note, of course we have discussed above. But we'll hit the high spots once more: The balloon mortgage note allows you to borrow money to purchase a home, often with a very good interest rate; the life of the balloon mortgage generally does not exceed 6 to 7 years. At the end of the balloon term, a huge "balloon payment" is due. Well, with the ARM, your interest rate is fixed for a certain period of time, and at the end of that term, there is an agreed upon fixed rate mortgage that picks up the balance of the loan, with a previously agreed upon interest limit, and a fixed number of years. You see, with the ARM, there is more of an assurance provided to the homeowner that he or she will be eligible for a particular mortgage, with a set limit on the interest rate. Current market conditions have the put the rates for balloon notes and ARMs at the same level. So, there is really less reason to choose the balloon note.

Some of the balloon mortgages sold today, have an automatic rollover option; you need to be sure which type of balloon note you're getting, and if the automatic rollover option is in effect. The automatic rollover does create the opportunity for a guaranteed renewal on the note; however the interest rate will not be geared to benefit the homeowner. Often, the interest rate is higher, and the homeowner has a new mortgage, but at a higher interest rate.

It really pays to shop around before you consider this option, especially with the vast product offerings that are available to most homeowners; there are usually better products, with better terms than the balloon note.

Balloon notes are generally more popular with rising interest rates, simply because they offer a better rate. But so do ARMs and they have less volatility than the balloon note. Unless I was absolutely positive that the home I was purchasing would be sold in less than 5 years, I wouldn't even entertain the thought of a balloon note. I would suggest the safer alternative of the Adjustable rate mortgage.

However, balloons are more attractive, and quite popular than there more hum-drum counterparts, and they do offer more home for less money each month. Just remember, they are prone to exploding!

## Mortgage Products: The Fixed Rate Mortgage

In order to understand the theory behind the fixed rate mortgage, you have to understand the mindset of the mortgage banker and the mortgage borrower of thirty or forty years ago. The Great Depression left a tremendous impression on the minds of this country, so much so, that one of the popular mortgage products of the turn of the century, the interest only loan, was shelved, never to be heard from again. Not until the recent explosion in real estate prices and the mortgage industries efforts to accommodate home buyers of all types has there been such mortgage variety.

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The banker, offering the mortgage loan, was assured of a 20% down payment and a secure monthly payment with a fixed interest rate that would benefit the bank. The homeowner received a set monthly payment amount that was affordable, and a fixed number of years to repay the loan, usually 20 or 30.

Since interest rates weren't fluctuating then, as now, and real estate prices were fairly predictable, this was a win-win situation for everybody. Then came the extremely high interest rates of the 80s, and suddenly bankers were locked into mortgage with a fixed interest of only 7 or 8 percent. It is at this juncture that the lending institutions and the mortgage companies began to re-think the fixed rate mortgage. Maybe adjustable rate mortgages were better suited for such a fluctuating market; they could then reassess the interest rate if the rates skyrocketed. This wasn't something the homeowner was in favor of using, but really what choice do you have? And usually, at some point, the rate will swing in the other direction. That's exactly what happened during the late 90s and early part of 2000.

Since 2001, interest only loans, 125's and ARMs have grown in popularity; on average, the interest only segment of the market is now around 30%. That's an increase from 3% in 2001. The market has never before experienced the variety now available for mortgage products, but never before have we experienced the growth in real estate prices and lowered interest rates that we have seen in the last 5 years.

The beauty of all this growth, the fixed rate mortgage is like the little engine that could. It's still around, still chugging up the hill, and still getting the job done. Statistically, many homeowners never payout their mortgage; they either sell their home or they refinance before the mortgage completes. This may be true, but for many of the homeowners I questioned, their home purchase was for the purpose of establishing a permanent residence, one in which to retire and live out their lives. That makes the good old standard 20 year Fixed Rate Mortgage look really good, even the 30 is still around (although not quite as appealing).

While there are places in this country that the real estate market has really boomed, and the real estate prices are soaring, there are still many that have not felt any effect, and for whom the appraisal prices of the 90s are still good today. When you consider the trade-off for the adjusting interest rate, the flexibility of paying interest only, and the borrowing power of the 125, it's hard to imagine that they are still homeowners who wish to use the fixed rate mortgage. That's because, however you're not looking at the entire picture. Many of these homeowners have experienced at least one job layoff. Many of the baby boomers that bought houses 10 or 15 years ago were getting ready for retirement, and many of the homeowners live on fixed budgets. The purpose in purchasing a home for the vast majority of these homeowners was to provide for themselves a secure, paid for place to live. These homeowners aren't interest in how to invest the equity of their home, nor are they interested in the other options they could exercise when investing their mortgage payment elsewhere. They're simple interested in paying for their home, and the fixed rate mortgage is the slow and steady payment that will accomplish this task.

## Mortgage Products: The Interest Only Loan

Many of today's consumers are financing their homes with interest only loans. Not very many of those consumers are aware that some of the grandparents, or great-grandparents also financed their homes with an interest only loan. I myself wasn't aware that this type of loan existed prior to the mortgage market of today. But, we weren't the first to use the interest only concept. During the Roaring 20s, many of middle-America's citizens chose to finance their homes with interest only loans.

Why did they not remain popular, and does this tell us anything about the market of today? Well, let's take a moment to examine the interest only loan of the 20s compared to the loan of today, and maybe we can become better educated shoppers.

The interest only loan of the 20s was a pure product. This means that the mortgages were interest only for the life of the loan. At the end of the mortgage period, nothing had been paid against the principal. Only the interest payments against the principal borrowed had been paid. This worked really well until the crash of the stock market and the Depression. At this point, many of the families that had lived in homes paying only the interest due were forced from their homes when there was no money and no jobs. Many lending institutions were left with foreclosed mortgages, and no cash. The traditional lending institutions at this point, simply shelved the interest only loan, in favor of more equitable lending; in other words, they preferred to loan money for a mortgage that would build equity. This gave the homeowner something comparable to savings, and the banker a lower outstanding mortgage balance.

That is a lesson we should carry forth when lending today, and using the interest only option. Most of the products offered today do carry a limit for the term of the interest only element. Generally, if the loan is a 30 year loan, no more than half can be used towards the interest only option. At least someone has exercised some level of judgment in providing for a cap, or limit to the interest only term.

In today's society, everything we see encourages instant gratification, and home mortgages are no different. Instead of sending a message that says, if you want more house, you need more money, we send the message that it's ok to borrow beyond your means. Now, in all fairness, there are some mortgage shoppers that fit the description of the candidate for the interest only loan. Investors, and candidates who do not intend to keep a home for longer than 5 years, do benefit from the interest only loan option. But for the typical homeowner, the interest only mortgage only prolongs the equity building process, and may often put the borrower in a situation where he or she cannot actually afford the payment when the principal and interest period begin.

Thanks to the booming real estate market, the interest only loan option, and the expansion of the mortgage product market, the increase in purchasing power has enabled many prospective homeowners to actually make a dream a reality. But at some point, the market will cease to boom, and the mortgage market will cease to expand. Will the consumer that purchased the interest only loan be able to afford the consequences, should the home suddenly not be worth the original loan amount? Let's hope for the sake of the unwary homeowner, this is a situation we do not soon encounter. And, for the most part, I don't believe we'll see this any time soon. Thanks to the natural disasters along the gulf coast, and the continued demand for real estate and building materials, the housing prices we're currently experiencing, along with the growth we've seen for the past couple of years, should continue at the same rate.

There are other, more stable loan products available, but these products don't provide the kind of return for the mortgage lender that the interest only loans do. They also don't pose the risk the interest only loans pose. The interest rates, however, are very competitive on these loans, and I don't' look for the general public to decide in favor of safety over savings. After all, nothing ventured, nothing gained.

## Mortgage Products: The Jumbo Loan

Jumbo loans are an investment tool they're not for the average borrower. Or so we thought. Today, however, thanks to the boom in real estate prices, and the ever declining value of the dollar, more and more average consumers are applying for these jumbo loans, and using them to finance a home purchase.

The most typical area to see the home prices rising to a level that makes a jumbo loan necessary is in your resort area housing. Many of these homes have escalated tremendously in price over the last couple of years, and the loan needs have risen to all time highs. The jumbo loan has now become a real mortgage product, not just an investing tool.

Before we get too deep into the real estate market, and the use of the jumbo loan, perhaps we'd better define the jumbo loan and the consequences of financing your mortgage in this manner.

The jumbo loan is a loan amount that exceeds $359,651. In fact, this is the defining characteristic of the jumbo loan. The other "baggage", if you will, that often accompanies these loans, is the large amount of paper work, higher private mortgage insurance, and the higher interest rate. It might also be interesting to know, that Freddie Mac and Fannie Mae, the two largest mortgage buyers in existence today, usually establish these limits, and dictate to many lending companies exactly what they will buy, and how. It should not need to be mentioned that these loans present a bigger risk than the other, traditional loan needs, and therefore must meet some rigorous requirements.

Now, having explained the definition of the jumbo loan, it deserves to be said that there are alternatives to avoid this type of loan, and still secure the funding you need to purchase a home, without using all your life's savings to do so.

The jumbo loan can be broken down into a first and second mortgage, negating the need for a jumbo loan, and cutting through all the extra paperwork and interest expense. But, that's another discussion. Another option homeowners have for avoiding the jumbo loan trap is to simply put enough down on the home to keep the amount financed below a certain level.

To further explain the role Freddie Mac and Fannie Mae play in the determination of the jumbo loan limits and expense, you need to understand how the mortgage market actually works, and the role these two companies play in that process. Today, if a mortgage company loans you money to purchase a home, you sign a waiver that states that you understand that your loan may be sold to another servicer. They should simply have you sign a form that says you know your loan is going to be sold; who is it? Freddie Mac and Fannie Mae. The mortgage companies find it necessary to resell your mortgage, in order to make another one. So, quite naturally, they must abide by the rules established through the buying companies. Jumbo loans can prove quite risky, so Freddie Mac and Fannie Mae don't even purchase these types of mortgages. For the mortgage companies that do, there are set limits, and they require more information, larger proven income levels and adequate private mortgage insurance to assure that the home won't go into foreclosure and auction.

In some areas of the country, there have been increases in the jumbo loan limits, simply because the housing market and home prices are so high, every home purchased would be a jumbo loan, if the limits weren't extended. Most of these areas are resort homes, vacation homes, and property is scarce.

What is happening today, however, is the growing segment of the population that really needs the jumbo loan financing in order to buy their home; not make a business investment. What does this say about our real estate market, and the value of the property? Our real estate prices are increasing at an astonishing rate, and right along with that, is the increase in products being offered by the mortgage lenders, therefore, it only stands to reason that we would see an increase in the jumbo loan market. The current estimate for the jumbo loan market is generally around 15%; that is still a pretty large hunk of the mortgage market.

## Mortgage Products: The Super Jumbo Loan

Super Jumbo loans are an investment tool they're not for the average borrower. Or so we thought. Today, however, thanks to the boom in real estate prices, and the ever declining value of the dollar, more and more average consumers are applying for these jumbo loans, and using them to finance a home purchase.

The most typical area to see the home prices rising to a level that makes a super jumbo loan necessary is in your resort area housing. Many of these homes have escalated tremendously in price over the last couple of years, and the loan needs have risen to all time highs. The super jumbo loan has now become a real mortgage product, not just an investing tool.

Before we get too deep into the real estate market, and the use of the super jumbo loan, perhaps we'd better define this type of loan and the consequences of financing your mortgage in this manner.

The super jumbo loan is a loan amount that exceeds $650,000 but not more than $10,000,000.00. In fact, this is the defining characteristic of the super jumbo loan. The other "baggage", if you will, that often accompanies these loans, is the large amount of paper work, higher private mortgage insurance, and the higher interest rate. It might also be interesting to know, that Freddie Mac and Fannie Mae, the two largest mortgage buyers in existence today, usually establish these limits, and dictate to many lending companies exactly what they will buy, and how. It should not need to be mentioned that these loans present a bigger risk than the other, traditional loan needs, and therefore must meet some rigorous requirements.

Now, having explained the definition of the super jumbo loan, it deserves to be said that there are alternatives to avoid this type of loan, and still secure the funding you need to purchase a home, without using all your life's savings to do so.

The mortgage loan can be broken down into first and second notes, negating the need for a super jumbo loan, and cutting through all the extra paperwork and interest expense. But, that's another discussion. Another option homeowners have for avoiding the super jumbo loan trap is to simply put enough down on the home to keep the amount financed below a certain level.

To further explain the role Freddie Mac and Fannie Mae play in the determination of the super jumbo loan limits and expense, you need to understand how the mortgage market actually works, and the role these two companies play in that process. Today, if a mortgage company loans you money to purchase a home, you sign a waiver that states that you understand that your loan may be sold to another servicer. They should simply have you sign a form that says you know your loan is going to be sold; who is it? Freddie Mac and Fannie Mae. The mortgage companies find it necessary to resell your mortgage, in order to make another mortgage loan possible. So, quite naturally, they must abide by the rules established by the mortgage purchasing companies. Super jumbo loans can prove quite risky, so Freddie

Mac and Fannie Mae don't even purchase these types of mortgages. For the mortgage companies that do, there are set limits, and they require more information, larger proven income levels and adequate private mortgage insurance to assure that the home won't go into foreclosure and auction.

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## Fannie Mae and the Home of Your Dreams

Ever wonder about owning your own home? If you're like millions of Americans, the dream is a real possibility. Thanks in part to the government, and their foresight in establishing the Fannie Mae Corporation.

Until recently, Fannie Mae was a part of the US Government, and was overseen by the Housing and Urban Development branch of that government. Now, however, Fannie Mae is a privately held, stock ownership company that promotes the growth of the housing industry by making it possible for many low-to-middle income Americans to own homes.

How did all this come about, and what does it mean to the mortgage industry? Let's take just a moment to explore Fannie Mae's history, mission, and place in the current mortgage industry.

In 1938, Fannie Mae was established by the US Government to promote the growth of home ownership by providing a secondary mortgage market. What is a secondary mortgage market? Well, the secondary mortgage market exists in the buying and selling of a mortgage from one lender to another. The bank, or Mortgage Company that provided you with your loan, can turn around and seek to sell your mortgage to a company such as Fannie Mae. This frees up their cash to make another mortgage loan. And the cycle of growth is expanded and sustained in this manner. The idea and concept worked, and today, Fannie Mae has helped millions of Americans achieve the dream of home ownership.

In 1968, just thirty years later, Fannie Mae became a private company operating with private capital. She had outgrown her need for federal funding and supervision. The housing industry has continued to grow, and currently the entire mortgage market is experiencing phenomenal success.

Thanks also to the available technology, Fannie Mae helps today's lenders approve customers in less than 24 hours. Many lenders use the automated system provided by Fannie Mae to seek and get approval for borrowers much faster than anything available, even 10 years ago. Fannie

Mae Corporation has done a fantastic job of promoting the growth of housing among the low-to-middle income Americans for the last 10 years, and thanks to those efforts, more American own homes now, than in any other period in history. That's quite an accomplishment, by a company that never directly lends money to the consumer.

Fannie Mae deals only in the secondary mortgage market, this way Fannie Mae Corporation can ensure that money for mortgages is available throughout the 50 states and that as many homeowners as possible can take advantage of home ownership.

How does Fannie Mae continue to fund the mortgages that she buys? Through the issuance of mortgage backed securities. These securities known as MBS are issued to investors. When Fannie Mae issues the MBS, she is guaranteeing the investors a return on their investment, and at the same time, providing a source of funding for issuing further mortgages. This provides the nation's lenders with a steady stream of cash to continue to make mortgages available to the consumer.

How does all this relate to the home of your dreams? Well, stop just a moment to connect all the dots. Fannie Mae buys mortgages from your local lender. The lender receives the proceeds from that purchase, and can then offer a new mortgage to you. It's a steady and continual circle of growth. Why? Well, Fannie Mae isn't the only lender in the secondary market. Insurance companies, pension funds, securities dealers, and other financial institutions buy mortgages on the secondary market. Who invests in these insurance companies, pension funds and securities dealers? Where do they get their money? From taxpayers just like you. Mortgage holders just like you. Now can you see how Fannie Mae and other mortgage lenders in the secondary market, work to foster home ownership and community growth, all in one process?

The primary focus for Fannie Mae, operating under a government directive, is to provide the maximum amount of help to lenders in making mortgage loans to the low, to middle, to moderate income families across America. Fannie Mae is also involved in a nationwide effort to join with lenders and community partners to create even more home ownership possibilities.

## How Does Fannie Mae Work?

In 1938, Fannie Mae was established by the US Government to promote the growth of home ownership by providing a secondary mortgage market. What is a secondary mortgage market? Well, the secondary mortgage market exists in the buying and selling of a mortgage from one lender to another. The bank, or Mortgage Company that provided you with your loan, can turn around and seek to sell your mortgage to a company such as Fannie Mae. This frees up their cash to make another mortgage loan. And the cycle of growth is expanded and sustained in this manner. The idea and concept worked, and today, Fannie Mae has helped millions of Americans achieve the dream of home ownership. Until recently, Fannie Mae was a part of the US Government, and was overseen by the Housing and Urban Development branch of that government. Now, however, Fannie Mae is a privately held, stock ownership company that promotes the growth of the housing industry by making it possible for many low-to-middle income Americans to own homes. Investors just like you and I can purchase stock in the Fannie Mae Corporation, and not only increase our won wealth, but also help to fund the home ownership possibilities for a new generation of Americans.

In 1968, just thirty years after her government commissioned birth, Fannie Mae became a private company operating with private capital. She had outgrown her need for federal funding and supervision. That does not mean, however, that the government does not still closely work with the Fannie Mae Corporation. It does. The housing industry has continued to grow, and currently the entire mortgage market is experiencing phenomenal success. Fannie Mae's focus, however, is still on the low to middle-income American.

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Through this partnering, and the existence of FHA backed mortgage loans, the Fannie Mae Corporation and your local lender can offer a greater variety of loan products, and reach a much broader client base. This increases once again, the homeownership possibility for many, more Americans. Thanks to the expanding mortgage product line, the increase in real estate values, and the efforts of Fannie Mae, more Americans own their own home than ever before. Where will the future take Fannie Mae, and corporations like her? I think the Fannie Mae Corporation will continue to foster growth and the realization of the American Dream for many successful years to come.

Interest Only: In Your Best Interest?

Prior to the depression of the 1920s, there was a mortgage loan product used by many of the American people, known as the interest only loan. Why did this long disappear? And why has it suddenly reappeared? Let's take a moment to answer each question, and hopefully provide some food for thought.

During the 1920s and into the early 30s, many of the citizenry of this country chose to live above their means. They chose the interest only loan because it allowed them to purchase a larger home for less money. What happened when the stock market crashed and jobs were scarce, and there was no income? Many of these people were left without homes; as they had chosen to simply pay the interest on their mortgage there was no equity built into their homeownership. When no equity builds, and the income ceases, the bank forecloses and residents or forced from their homes.

During the Great Depression this happened to many homeowners. It was at this juncture that many lending institutions chose to remove this loan product from their offered products as it was simply too risky. But with the creation of the many mortgage products offered today, the interest only loan has made a return. And what a return!

Today the interest only loan market segment comprises some 30% of the entire loan market; a development of only four years. Prior to 2001 days only loan market was a 3% segment of the entire market; the exponential growth we've experienced has set new records not only for the mortgage market, but for many financial markets in general. Add to this tremendous growth the also tremendous growth of the housing industry, and you have a very delicate situation.

But is the interest only loan good for the average consumer? Not very. There are individuals who truly benefit from an interest only loan, but they fall into a very small category. The greatest benefactors of an interest only loan would be investment individuals and young professional individuals who do not intend to retain their home for more than five years. How many of the actual mortgage applicants follow into this category? Less than 5%. So how do we have only 5% of the population actually qualify for the interest only loan, and an interest only loan market of 30%?

We have these conflicting figures because not everyone that purchases in interest only loan truly benefits from an interest only loan. The mortgage lender is not concerned with the benefit of the product to the purchaser. The mortgage lender is interested in the profitability of the product he or she has sold. And interest-only loan is a truly profitable product. In fact, the entire payment is a profit to the lending institution. Not one penny of the payment applies to principal for a specified term. Interest only payments, generally comprise only five to seven years of the entire term of the loan. After the initial five to seven year interest only term, the consumer begins to pay greater payments that apply to both principal and interest. As you can say this is truly not in the interest of the consumer, as most consumers do not begin to see a rise in income as quickly as they begin to see a rise in mortgage payment.

Investors who have a trying staff of financial advisers and lending specialists truly understand how to use an interest only loan in order to turn a profit, but there is where an investor is not a homeowner. For homeowner has no interest in profitability, they are concerned with residency stability. They cannot afford to lose their home; an investor can afford to lose an investment. As you can see, there may have been merit and validity to the decision to remove interest only loans from their product offering during the 20s and 30s; it's quite possible today, that we have lost sight of the devastation and destruction witnessed during the Great Depression. Let's just hope the bubble doesn't burst. Interest only loans are encouraging borrowers to live at the limits of their means, and I don't think that's good for the borrower, the economy or the housing market. What happens to the homeowner, should the bubble burst?

## Mortgage Interest and Your Tax Liability

As you begin your search for the perfect home, and you research your mortgage loan options, the tax consequences of a mortgage loan with mortgage interest doesn't even cross the minds of most consumers. But as you decide which product you need, or think you need, the tax repercussions and benefits should play a role, even if it's a small one, in the final decision.

For many consumers, the first thought that's given to their tax return, and tax liability, comes from the mortgage lender. Quite often, mortgages are touted as being one of the best venues for reducing your tax liability at the end of the year. Yes, your mortgage interest payments will reduce your tax liability, but is that your ultimate goal? Is that why you're looking at mortgage packages? No. Your ultimate goal in choosing a mortgage is to pay for your home.

Every situation in this case, and this case would apply to the average consumer shopping for a mortgage loan, is probably not going to get that much benefit from the tax deduction that comes from their mortgage interest payments. The average consumer should first look at their monthly payment and choose a mortgage based on affordability, not tax liability.

The smart consumer will not allow the flashy ads displayed by many mortgage lenders to influence their mortgage loan decision. The smart consumer will examine the interest level, the term of the mortgage loan, the affordability of the monthly payment, and base their decision upon their ability to pay in relation to the mortgage that achieves their primary purpose: the payout of the loan.

You and I rarely consider the impact of any financial decision on itemized deduction statement; however many of those decisions do affect itemized deductions. Are itemized deductions a major portion of our tax liability? No. Do they contribute to a reduction in tax liability? Yes. The relativity of the contribution when contrasted to the required time in examining the actual benefit we derive from the itemized deduction calculations warrants the point mute. It's just not worth the effort.

If you happen to be in your mid-40s and you are purchasing your first home, I would suggest that you consult a financial adviser prior to making a mortgage decision; however most individuals in their mid-40s would already realize the benefit of a financial adviser. A young couple purchasing their first home would truly benefit from the interest deduction, not to the extent however off more than $40-$50 of the bottom-line for their tax liability. As you age, and your way to earning power increases, the benefit of the itemized deduction decreases. Does the average person understand how tax is configured? No. The only person who can truly enlighten a consumer would be a tax professional, and many average individuals would spend more money in the determination of the benefit than they would reap.

The new guy on the mortgage loan law, known as the interest only mortgage loan will bring the greatest benefit to the consumer. The interest-only loan in the amount of interest you can deduct on your tax return are one and the same, but does the benefit of the mortgage interest deduction outweigh the added expense of an additional five years on the mortgage loan?

What about the mortgage loan refinance? Any equity you remove from your home in the form of cash that can be used to pay down or pay all high interest credit card accounts will transfer a nondeductible expense to your deductible expenses. However you should remember the trade-off you now owe more against your home, and you have used your equity reserves. Was the deduction worth the trade? Many times the answer is no. For many consumers, paying off high-interest credit card debt only increases the probability of additional credit card charges. In other words, not only have use your equity, you've returned to high-interest debt.

Prior to a final decision of your mortgage along product, take a moment to review your tax situation. Each situation is unique. The lower your income, the greater the benefit, but rarely is the benefit worth the cost. Behold, the Tax Man, cometh.

## Real Estate and Mortgage Loans: The Circle of Growth

In case you haven't noticed the mortgage market and the real estate market have been blazing a trail into the record books. Never before has there been such explosive, sustained growth of these two markets. The key factor here is that one seems to feed off the other. Is this a good thing, or are the two markets headed for a collapse?

You have analysts that will argue for either side. But, you need to have a better understanding of how this process works, and what elements have come together to allow this kind of growth, before you can accept or disprove either argument. What has happened to spur this kind of growth? Well, there are several key factors that managed to come together at precisely the right time, some of them attributable to natural disaster that has generated a booming market. The first contributor was the falling interest rate that has leveled out around 6 – 7%; the second great contributor has been the increase in mortgage loan options. There are mortgage products out there to fit every type of buyer. The third contributor, (and this one is purely from nature) was the horrific hurricane seasons of the past couple of years, including the season we had this year.

How have all these elements come together to generate growth? Here's exactly how: lower interest rates meant cheaper monthly payments, refinancing options were open, and people could afford to buy bigger homes for less. Add to that mix a more varied loan market, and you have an increase in buying, selling, and building. If you also throw in the fact that hurricanes destroyed massive quantities of homes along the coast, and most will rebuild, you have a burgeoning real estate and housing growth market.

We have also managed to create an environment very conducive to investment, construction, and resort development. Now, if you factor in a booming market for investors, you have a prime situation for increases in real estate value, increases in construction, and increases in mortgage loans.

How does the average citizen ready to buy or build a home interpret all this information? Well, it creates a wonderful situation for the homeowner looking to sell a home, simply because the value of the home should show a tremendous increase over the purchase value, especially if you've owned the home for more than 10 years. However, if you're buying or building, you're not going to like the situation. Why? Because home prices are up, thanks to the rising real estate prices, and so are is the price of building materials, needed to build a new home. We can attribute much of this to high gas prices and hurricanes. The good news, in all this, is the low interest rates. You can still borrow at an extremely affordable interest rate.

For the consumer shopping the market, you need to really educate yourself about the rising costs of real estate, the local values in your community, and what mortgage products would most benefit you, when you consider your individual objectives. If you're like most, you aren't buying your home for an investment, and you aren't buying with the intent to sell in a few short years. In the market of today, it would be a wise choice to meet with a financial advisor; someone that has a background in finance, and can help you to clearly define your objects, and choose a mortgage that will reflect those objectives.

Many of the individuals, who are the doomsayers, seem to think that the market can't sustain this type of growth. That is has occurred too quickly, and like the bubble of the stock market, will burst, leaving many homeowners and mortgage lenders "holding the bag" so to speak. But, you also have many of the intellectuals that say the real estate market was due a burst of growth; that it is normal, healthy, and we should have no trouble sustaining this type of growth. Whatever the end result, right now, the real estate market and the mortgage market are hot items; if you own real estate, you've hit the jackpot. If you're looking to buy, get ready to pay.

## Retirement and the Mortgage Loan

There is an untapped reserve of cash in our homes; it's the equity we've built into our homes over the life of the mortgage, or simply in owning our own home. If you're looking for a great financial tool, learning to use the equity in your home to its fullest extent is something we Americans aren't very good at accomplishing. Fear of a loss is the number one reason we don't utilize our equity asset. But, if you will take the time to investigate many of the investment options available to us, the risk is minimal, and the return is great. Especially now during this period of extremely low interest rates, your home's cash equity could be earning you a return of 18-20% in certain investment funds. Even if you borrow money in order to cash out the equity, you're making money. The interest you pay is substantially less than the interest you're earning.

Why are we so reluctant to take out a second line of credit, or increase our mortgage balance through refinancing? Many of today's homeowners reaching retirement age do not fully understand all their investment options, nor do they understand how investments like growth funds work. They are very reluctant to try anything that is beyond the sure bet of a certificate of deposit. In so doing, they are missing a tremendous opportunity to earn a greater return on their money, and let their money work for them.

Take a look at your 401k, where are your investments? Are they earning 5-8-10%? Unless you're ready to retire, your 401k should earn at least 6-8% on your investment. Your home is earning you nothing on your investment, at least, not in the sense that the money must stay in the home in order for the home to increase in value. Quite honestly, your home will appreciate in value if you do nothing but maintenance work and live in it. Your equity you have in your home, can earn you up to a 15% return, while you still are fairly safe with your principal investment.

Speaking of 401k investments, are you investing the maximum each year in your 401k? If you're self-employed, are you making use of the SEP retirement options that reduce your tax liability? If you're not, you should really consider the equity in your home as an investment option for adding to your 401k, or establishing an SEP that will allow you to invest your money in profitable and fairly safe global and growth funds. There are still many excellent opportunities in the stock market. There are segments of the market that are experiencing phenomenal and stable growth. The overseas markets, the domestic real estate markets, and the energy markets are growing, and are expected to see sustained growth. Put your money to work for you, especially if you are several years away from retirement.

Another retirement option that involves a mortgage loan is the reverse mortgage. This however, is not a way to build retirement savings; it is a way to simply access the equity you've built in your home, so that your monthly income levels are adequate to sustain your most vital needs. Food, clothing, heat, and medicines are a must as you reach or near retirement age. Many times, the elderly are not as prepared financially as they anticipated that they would be. How can they supplement their monthly incomes? The reverse mortgage is the answer to many older citizens' financial needs. The reverse mortgage allows a person to withdraw a monthly sum against the equity they've built into their home. The interest payments are deferred until death, and the homeowner doesn't have to worry about making a monthly payment, or borrowing money. They are able to use the money they've already put into their home, just when they need it most.

If you are past the age of 40, and you haven't taken the time to consult with a financial analyst, I would recommend that you seek out one that you can trust and that you are comfortable in discussing your financial affairs with, and begin to look at your retirement options, your retirement needs, and your ability to meet those needs, based on your current income and savings. What you may find is that you aren't near as prepared for retirement as you thought. The monthly income needed will probably greatly exceed your anticipations. But, if you own your home, you may have just prepared more than you think!

Reverse Mortgage Loans

If you were to ask the average consumer to define the reverse mortgage concept, you would find very few able to do so. Many consumers, especially those who aren't up on their mortgage products and their availability will never have heard of a reverse mortgage, much less able to explain the concept. But it may just be one of the best financial planning tools available to many seniors and those reaching retirement age.

As many individuals reach retirement age, their fixed incomes simply aren't adequate. They aren't receiving enough through social security or a pension fund to take care of the rising costs of living and the medical attention many older citizens must have. So what is the solution? Many of these retirement age citizens have children. Why can't their children supplement their incomes, or simply take care of their elder care needs? The simple fact is that many of their children aren't in a position to care for their elderly parents. Their incomes aren't enough to have money left over, and if both spouses work, there is no one to take care of an aging parent.

It is at this juncture that many people have begun to turn to the reverse mortgage in seeking the increase in monthly income that is so desperately needed. The reverse mortgage offers older citizens a way to benefit from the equity in their home, because the reverse mortgage turns that equity into a monthly income. Quite frankly, unless you live with your parents, or you intend to move into your parents home when your parents pass, you aren't going to retain the home; statistics attest to the fact that the vast majority of children sell their parents home, once their parents are no longer in need. Why not cash in on that equity when your parents are alive, and need the monthly income?

The popularity of the reverse mortgage has been steadily increasing, and many reverse mortgage companies expect 2005 to be a banner year. As the idea begins to catch, and spread among the elderly, there are more mortgage companies that offer a reverse mortgage product. The key here is that most of these elderly did plan for retirement; they did try to make the necessary adjustments so that there monthly incomes would be enough to see them through their retirement years. Thanks, however, to the rising cost of medical care, prescription medicine, and heating fuel, many older citizens have found that their planned retirement income each month is simply not enough.

There are those reaching the retirement years, for which the reverse mortgage is not an option, simply because they have no equity in their homes, or they don't own a home; but for the remaining seniors, it's an option that I would exercise, especially if I were certain my home would be sold during an estate or inheritance sale. The money that the reverse mortgage generates, can add so much to the few years we have during our retirement in the areas of travel, entertainment, and sheer enjoyment of life.

Since we can never be sure that we've properly prepared for retirement, or that some unexpected emergency won't knock us off our feet, or that we simply do not have enough thanks to the stock market losses of recent years, the reverse mortgage is one of the best ways for older citizens to access the equity in their homes and turn it into ready cash.

We have saved the best part, however for last: any proceeds from the reverse mortgage are tax-exempt proceeds. In other words, you will not have to pay tax on the money. There are other, tax-exempt options, but the reverse mortgage remains one of the most conducive to the senior citizens needs, as well as those of their families. The interest payments on a reverse mortgage are deferred until death, therefore, seniors do not have to be concerned with making interest payments or tax payments on the proceeds.

If you're not familiar with the reverse mortgage, and you think you might benefit, or that your parents might benefit, take a moment to seek the advice of a financial officer, and then quite possibly your attorney.  Never make any decision before you fully understand what the consequences of your decision might be, legal or otherwise.

## Your Tax and Your Mortgage, the Seesaw Relationship

Not very many homeowners ever stop to question if there is a real benefit to the deduction of mortgage interest.  They assume because the your mortgage lenders play on the fact that mortgage interest is tax deductible and credit card interest is not, that they are being told the truth, and will see a real benefit from the deduction of mortgage interest.  Well, let me be the first to say, yes there is probably a benefit to be had, is it the advantage that many lending institutions lead us to believe?  Probably not.

Now, with the advent and continued growth of the interest only loan, the benefit has just swung in the taxpayer's favor.  But, is the trade-off worth the cost?  Interest only loans mean to the average home owner that there mortgage debt will last longer, well past the number of years of a standard adjustable rate mortgage or fixed rate mortgage.  Yes, the interest deduction is greater, but what is the cost of the missed opportunity to do something else with your money, 10 or 15 years from now?  Will the tax benefit outweigh the financial cost of adding 10 or 15 years to the life of your mortgage?

Very few consumers are actually as tax savvy as they need to be, in the area of mortgage interest deduction and how to calculate actual savings. This means that very few consumers are actually aware of the real benefits and the real costs associated with their mortgage and their tax status. How can you determine the real benefit? It will require some effort on your part, in one of two ways: You can educate yourself about the tax and mortgage regulations, or you can seek the advice of a trusted financial advisor. The keyword here is trusted. You must take the time to establish a relationship with a financial advisor with whom you feel comfortable, and with whom you can communicate and trust.

The information that you provide to a financial advisor or tax analyst, will enable them to give you advice that fits your individual and unique situation. Every individual situation is different, and much of the tax benefit is dependent upon your individual income levels.

There is often a real seesaw in this relationship. In the early years, when your earnings are low, your tax benefit from mortgage interest paid is much greater. Then, as you age and your wage earning potential increases, your benefit from the mortgage interest deduction decreases. Unless of course, you can find a way to drastically reduce your adjusted gross income. Many individuals do this through the option of self-employment. This makes better use of your income dollars, and allows for a greater tax deduction on home mortgage interest.

The most important thing you can do for your financial health is to seek the advice of a trained professional, early in your adult life. Many decisions that you make during your twenties and early thirties will affect your financial health and your tax liability levels for 20 or 30 years to come. Your mortgage is one of those decisions.

Interest only loans, fixed rate mortgages, adjustable mortgages, or any of the other many options available to borrowers will have a different affect upon your individual situation. Many of these loans are structured to provide an imbalance of interest versus principal allotment of the payment total, during the first few years of the loan. The interest only loan is just that: all of your monthly payment is an interest payment on the principal. And yes, under the right conditions this is a truly great benefit when you file your income tax return; but the keyword is the "right" conditions. Otherwise, you're not reaping the benefit you could possibly receive had you chosen a different loan option, or if your income levels were different.

I make no pretense that the American Tax System is a tangled web, and a maze of tax codes, laws, and regulations. But there is benefit to the mortgage interest and your tax liability, if you take the time to discover exactly what your options are, and how to best benefit from all the choices you have.

## Equity and Your Home, A Hidden Asset?

The equity you have established in your home may be one of your best assets, you just aren't aware of the value, and many individuals don't realize what they can do with that hidden asset. In fact, there so many uses for the hidden equity in your home that this article is only going to cover the most common.

A home-equity line of credit allows you to withdraw only the amount of money you'll need for various home-improvements, to begin your own business, or even to finance a prospective buyer's purchase. The equity in your home can be a withdrawal for investment purposes, 401(k) plans, or debt consolidation. What you chose to do with the equity in your home, can eliminate high interest credit card debt and convert that interest to a tax-deductible year end savings for you.

Many consumers simply aren't aware of the possible benefit of a second mortgage, a home-equity line of credit, or simply a refinance of their current and existing mortgage. For some, the fear of the loss of their home seems to outweigh any benefit that might be had from the use of the equity, and for these homeowners refinancing or home-equity lines of credit might not be an option. For the more informed consumer, a home-equity line of credit will open many doors, and provide a growing family with needed room, a larger living room, or even an extra bedroom.

If you ever given thought to the possibility that there is a more profitable use for the equity in your home you're probably a candidate. Exactly how to invest that money for the greatest amount of benefit will depend largely on your personal and individual financial situation; it is at this point is you should seek the advice of a financial adviser, or may be a tax planner.

Let's take a moment to discuss the different options you have with the withdrawal of the equity in your home: a home-equity line of credit, a mortgage refinance, or a second mortgage will provide the consumer. A home-equity line of credit is simply that an extension of credit from your bank or mortgage-lender based on the amount of equity you have established in your home. The interest rate is usually a variable or adjustable rate based on the prime interest rate plus the lenders additional interest margin. Quite often the lender will accept a previous existing appraisal of the property provided that the appraisal is current within five years.

A mortgage-refinance will require more time and investment on the part of the homeowner and quite possibly a reappraisal of the property, and for this reason is often avoided by many homeowners. The upside of mortgage refinance is that many times the mortgage refinance rate is much lower than the original mortgage-rate.

The second mortgage option is really closely related to the home-equity line of credit with one exception: a second mortgage is a determined loan amount with a determined loan rate. The second mortgage option is comparable with a home-equity line of credit in that there is no need for a new appraisal, title search, or closing cost.

With any of the three options, the mortgage interest is completely tax-deductible and may be added along with the original mortgage as an itemized deduction. Regardless of the use of the funds, so long as it is classified as a home mortgage there exists a tax deduction.

What possibilities exist when you tap into the equity in your home? The uses of the money are as varied as the homeowners who borrow the money. Many times the homeowner will use the equity to improve or expand on the size or value of the home. Other times, the homeowner needs to use the equity to finance college educations, or maybe that once-in-a-lifetime opportunity to start their own business. Regardless of the end use of the equity, there is no safer bet than the equity you build in your home.

Often, a homeowner begins to evaluate the equity asset when he or she begins to approach the mid-point of the mortgage life, or the mid-point of their life. It is often during this phase that the financial benefits of using that equity outweigh the option to leave the equity in the home.

## Mortgage Companies: Specialty Guys

Let's talk about the specialty guys, the mortgage interest companies. Why do they exist in what do they do for the average consumer? Actually a lot. Mortgage interest companies exist for the pure and simple reason of originating mortgage loans. If mortgage loans are your specialty then quite naturally you would assume you're very good at what you do. And most of the mortgage companies are very good at what they do. So much so, that real estate prices and mortgage loan products have seen a threefold increase. What does this mean for the consumer and what does this say about our mortgage companies?

What this means for the consumer is that now there are being offered a wide range of the affordable, and quite accommodating loan products. What does this say about our mortgage companies? That today more than ever mortgage companies are creative with their efforts to accommodate a growing and varied range of customers. Mortgage companies offer mortgage loans that range from interest only, 1% interest only, to the standard fixed rate mortgage loan product. This article will take a moment to examine the mortgage companies and the mortgage products offered by these mortgage companies.

If you need to apply for a mortgage today, you only have to go online to find your nearest mortgage company and a detailed list of the mortgage products they provide. Even if you don't want to complete the application online, you are supplied with all the necessary information to make an informed and educated mortgage decision without ever leaving the comfort of your home. Almost all of the mortgage companies in existence today make use of the online environment to advertise their business and their business products. But, this is not the only avenue for advertising the mortgage companies will use. Many of the mortgage companies today use advertising venues via the newspaper billboards and radio. By far the largest vehicle of advertising used by the mortgage companies today is through the use of the television; it is via the television that you will most often hear about mortgage-company's and the mortgage products offered.

Mortgage companies compete for your business by offering lower then standard interest rates, and extremely unusual by traditional lending standards, mortgage products. The increase in the number of interest-only loan products is a testament to the use of non- traditional products in order to increase customer base. However, the consumer is a winner as far as the interest rate expense because many of the specialized mortgage companies can offer a lower interest rate than your local and traditional lending companies, such as banks. Due to the specialty of the mortgage company and the mortgage product interest rates are sometimes a full 2 to 3% lower then the rate offered through the traditional lending institution.

Factor in the advent of the online mortgage companies, such as Quicken Loans, and you have an even lower interest rate offering due to a lower overhead expense. What role has the online mortgage company played in lowering interest rates, and pulling from the traditional and physical-existence mortgage companies? The influence has been quite great; many consumers have shopped the online environment in order to obtain the low interest rates offered. Companies such as Quicken and Ditech have experienced phenomenal growth thanks to the online mortgage company existence and television advertising.

The government has greatly encouraged the growth and competitive nature of the mortgage company industry through the use of government programs such as Fannie Mae and Freddie Mac, and has empowered the mortgage companies with a means to sell existing mortgages in order to originate new ones. Apparently, the government wishes to encourage the success of the specialty companies with the specialty rates!

I believe the existence of mortgage companies, the ever-increasing range of mortgage products and a continued increase a real estate prices has helped to contribute to the stabilization of an extremely low interest rate, which in turn has fueled the growth of the mortgage companies and the range of products offered. As you can see, this is a market of interconnected affectation and the consumer seems to be the greatest benefactor. So carry on specialty guy!

## Mortgages for the Investor

Not everyone that applies for a mortgage loan is a homeowner seeking to purchase their dream home, or their first home, or even their second home. Some of the mortgage market centers around individuals who invest in property for the purpose of increasing their investment portfolio, or building their retirement fund. What are the differences in the needs of the investor and the homeowner? There are some great differences, and then there are some basic values that every person seeks to fulfill when soliciting a mortgage product.

Let's take a moment to examine the mortgage loan from an investor's viewpoint, and determine how their needs and objectives differ from the average homeowner. As an investor, of course the objective is to make money. You want a return on your investment, preferably, as much as you can possibly get. This means that you seek the lowest interest rate possible, with the least amount of expenditure on your part.

The rising real estate prices, and the low interest rates, have generated much activity in the investment area of the mortgage and real estate markets, and many of these investors are fairly new to the investing game. So what are the best bets in mortgage loans? Interest only loans have everyone buzzing, especially the investor. Why? These loans require very little expenditure on a lot of real estate. Many of the interest only products out there today, do not require the homeowner to make a down payment, nor do they require the investor to make a down payment. Unlike traditional loans, the payment each month only requires that you pay the interest due on the principal. This equates to less cash out for the investor, and more retained for improvements to the property, or in the active solicitation of a buyer. Either way, the investor gets to keep more of his or her money, for the real objective, buying and selling.

Fueling the mortgage product market are the low interest rates, and the rising real estate prices. For many of the lending institutions, these investment properties are a fairly safe bet. Most of the investment property is in a resort or vacation area, and as the numbers go, these areas will only see increases in demand, not decreases. Also available in these areas, for investors and homeowners alike, are the jumbo, super jumbo, and 125 mortgage options. The jumbo and super jumbo require much more paperwork, normally a higher interest rate, and higher private mortgage insurance; but they also provide the huge amount needed to finance resort property during the construction phase.

The other great contributor to the real estate investment market is the coming of age for the baby boomers. Many of these individuals are reaching retirement age, and they have expendable, investment income. They prefer a safe bet, also. They prefer resort, retirement, and vacation properties, also. A great many of these individuals are investment savvy, and understand the different loan products available, and how to use them to their advantage.

It would be wonderful if the market continued to grow, and we continued to experience the wonderful effects of an ever-increasing and growing real estate market, but I'm afraid we are going to hit a few years, in a few short years, that will see a leveling, if not decline in real estate prices, simply as a result of the continued climb of these last few years.

However, for the investor today, the real estate market is a wonderful and exciting market on the move and on the rise. Take the time to seek financial advice, and in some cases legal counsel prior to jumping into the water; the need to prepare is just as necessary for investing as it is for average home ownership. The only black mark on this market would come from the volatility of real estate, in relation to the stock market, and the investor's cash assets. If we should begin to experience problems in the stock market with heavy fluctuation, or spiraling portfolio balances, you could possibly see an effect on the real estate investing market. But, just like many other disasters, even though the possibility exists, our current market trends and projections do not lend credit to this potential threat. For the most part, the investment portfolio that includes real estate and the mortgage market seems to be climbing steadily!

## Online Mortgages: The Good, the Bad, and the Useless

You're ready to buy your first home, but where do you start the search? Well it would seem today the best place to start would be in the online market; the online market offers some of the most competitive interest rates are valuable and you can apply right from the convenience and privacy of your home.

Does this mean that the online process is just 1,2,3.. and you're ready to buy? No, this means the online community is one of the better places to start. This article will take a look at the good, the bad, and the useless. Not every web site is your key to your new home; not every web site is what it claims to be. Why don't we start with the tools that are available for the novice buyer and then move into the online programs that are valuable, and finish up with the online mortgage companies?

Many of the advertised web sites do offer really useful tools for a novice buyer in order to prepare them and determine eligibility levels. Tools such as the mortgage calculator, the debt to income ratio calculator, and tools available that will determine the mortgage products that are obtainable based on your input of information are really helpful and do actually provide the potential homebuyer with working information. Normally, all of the major web sites will provide access to these tools through the use of hyperlinks; some even offer to calculate home value based on your location.

The most useful and perhaps the most often offered a tool for the perspective homeowner is the application form to pre-qualify and to have a representative contact you. There's nothing like talking to another person, especially one that is a specialist in the mortgage industry, in order for you to determine what you actually will qualify for and what you might actually want to buy.

What other options and tools are available on these web sites? Another useful and often overlooked tool is the link that will provide you with access to your credit file. More often than not, a young person tries to pre-qualify for a mortgage product and there is no existing credit history, there is no established credit score, therefore there is no hope of obtaining a mortgage. At least not without a cosigner. But if you're a beginner, and you take the time to visit web sites you can gain access to information before it's necessary to have established plan. This in itself puts you one step ahead.

What would fall under the classification of "bad"? Here's the only item that I can truly file as a bad side effect of and online mortgage quest: your name and information is shared with all other online lenders and at some point in time your phone will ring and a telemarketer will asked to speak with you, in order to sell you a mortgage. Now, a mortgage is not really something that you impulse buy, therefore I believe this to be a waste of time for you, the telemarketer, and the online mortgage company.

What falls under the "useless" category: the web sites that offer to find bidders to bid and compete, for your mortgage business. First of all they don't gather enough information to actually compete for anything; not what mortgage company is willing to submit a bid for your business until they check your credit file, are familiar with your credit score, and know something about the property you're proposing to buy.

Now why would you even advertise like this? Well the answers really simple these web sites that offer to recruit mortgage companies that will be it for your business are telemarketers in disguise. That quite obviously earn a commission for every lead they provide for a mortgage company, and you are simply providing information to be one of their leads. It's really a simple way to search for and locate live leads, and it really does save a lot of live telephone time. So there you are a general overview of the online mortgage market, the good, the bad, and the useless.

## PMI and the 1998 Homeowner's Act

Let's first define what private mortgage insurance actually is, and why you might be required to purchase the insurance. Private mortgage insurance is an insurance purchased to protect the lender, not the borrower. The borrower however pays for the mortgage insurance, and this is provided to the lender instead of the 20% down payment normally required when purchasing real estate. The insurance provides the difference between the fair market value of the home and the actual price a lender may be able to sell the property for, in case of a default on the loan. Normally, the lender will require a 20% down payment and forgo the private mortgage insurance option. However, under certain circumstances if the buyer has an excellent credit rating, is well known to the lender, and is deemed to be low risk, private mortgage insurance may be an option offered by the lender.

The current mortgage market is flooded with such varied products as the interest only loan and the 125 loans and private mortgage insurance seems to be a thing of the past. You rarely encounter a situation when the buyer is required to purchase the private mortgage insurance; those situations most likely to continue to require the purchase of the private mortgage insurance are those where the lender is a traditional lending institution. Mortgage companies have long since ceased requiring borrowers to purchase private mortgage insurance.

Mortgage investors, such as the Fannie Mae and Freddie Mac programs, have recently come to the aid of the borrower by introducing an option to the primary mortgage market that allows borrowers to pay as little as 5% down and purchase only enough mortgage insurance to cover 25% of the loan; this creates a potential citing situation for the borrower. The borrower may pay a slightly higher interest rate in order to lower the cost of insurance that the advantage lays here: mortgage interest is fully tax deductible, private mortgage insurance is not.

There's another option, also regulated by the federal government and passed into law in 1999, known as the Homeowners Protection Act of 1998 established rules for regulation of private mortgage insurance requirements once a homeowner reaches a level of 20% equity. What the law requires, in layman's terms, is that a lending institution must notify you once your equity levels reach 20% of the appraised value of the home. Once you the kind of 20% equity level, you must be given the option to drop private mortgage insurance. If this proposal had passed into law some 20 years ago, it would have been met with great resistance among the lending community; today, the interest only loan and loans that offer mortgages in excess of the appraised value of the home overshadow the effect of the 1998 homeowner's act.

The regulations passed into law by the 1998 Homeowner's Act do not affect FHA or VA loans, and many of the Fannie Mae and Freddie Mac programs have additional stipulations and requirements in addition to the 1998 law.  Also, your state laws and regulations may also affect your insurance requirements.  Due to the recent increases in real estate pricing, and as a result the increased level of a mortgage borrowing requests, Fannie Mae and Freddie Mac have increased their loan limits and private mortgage insurance limitations.  They even the secondary market has a need for the private mortgage insurance requirements, thanks to the booming real estate economy.

Many homeowners seem to mistake the private mortgage insurance purchased in order to secure the loan, with that of the homeowner's liability insurance.  Lenders are responsible for making clear the distinction between private mortgage insurance purchased to protect the lender versus the homeowner's liability insurance purchased to protect the homeowner.  Both forms of insurance will need to be purchased, and the borrower will be responsible for payment of both insurance premiums.

The Homeowner's Act of 1998, served as a  way for the borrower to decrease their monthly mortgage payment, once the 20% equity level have been established; this seems like a small contribution when you examine the mortgage products offered today, that do not require the borrower to establish any equity.

## Private Mortgage Insurance, Who Pays?

Chances are unless you're right in the throes of purchasing your home, you've never even heard of private mortgage insurance.  But, if you intend to purchase a home and you don't want put the 20% down that traditional lending institutions require, you're going to become very familiar with private mortgage insurance.  What is private mortgage insurance and who pays for private mortgage insurance?  This article will take the opportunity to discuss private mortgage insurance and why you're required to purchase it; we'll also examine the latest federal regulations governing private mortgage insurance.

Let's first define what private mortgage insurance actually is, and why you might be required to purchase the insurance.  Private mortgage insurance is an insurance purchased to protect the lender, not the borrower. The borrower however pays for the mortgage insurance, and is provided to the lender instead of the 20% down payment normally required when purchasing real estate.  The insurance provides the difference between the fair market value of the home and the actual price a lender may be able to sell the property for, in case of a default on the loan.  Normally, the lender will require a 20% down payment and forgo the private mortgage insurance option.  However, under certain circumstances if the buyer has an excellent credit rating, is well known to the lender, and is deemed to be low risk, private mortgage insurance may be an option offered by the lender.

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Quite often as we go through the mortgage process, we encounter many unexpected expenses; private mortgage insurance is normally one of those unexpected expenses. As a consumer if you're contemplating the purchase of a home, contact your local lending institution, or a mortgage company in your area, and asked for information concerning the purchase of a home for first-time homeowners. The information you're provided should contain all the terms, conditions and terminology explanations that you will need in order to make an educated decision when choosing lenders and homes.

## Second Mortgages: Friend or Foe?

Great news! You qualify for a second mortgage. Now what would you like to do with the second mortgage? It will be your answer to this question that determines whether or not your second mortgage is your friend, or your foe. That seems to be an awfully strange way to look in a second mortgage; however that's exactly what the mortgage will be. Your friend or your foe.

How do you even qualify for a second mortgage, what is a second mortgage, and why would you want a second mortgage? Well, the answers here are as varied as the consumers who apply for such mortgages. Many times consumers need a second mortgage to make improvements on their home. Many times consumers need a second mortgage to put their child to college.  And sometimes, consumers need a second mortgage to start a business.  The reasons given here for obtaining a second mortgage increase the value of the home, provide opportunity as an investment in your child's future, or provide the opportunity to increase income.  These are the original and most beneficial reasons for obtaining a second mortgage.

Are they the only reasons consumers obtain second mortgages?  No. Today's market has been a great influx of second mortgages to pay off credit card debt, to buy new car, or to simply take a vacation.  Should consumers receive a second mortgage for those reasons?  Absolutely.  Should consumers actually ask for a second mortgage for those reasons?  Absolutely not.

An educated consumer understands the consequence of a second mortgage.  The educated consumer understands the price of the second mortgage.  What is the price of the second mortgage?  The equity in your home.  When you apply for a second mortgage, you're trading the equity in your home for cash.  You're giving up your savings.

If you're trading your savings, in order take a step up, you've made the right decision.  If you're trading your savings for a frivolous expense, you've made the wrong decision.  That's how you determine if your second mortgage is your friend or your foe.

Today's consumer is acquiring second mortgages that for many will prove to be their foe.  They're not increasing the value of the home; they're not educating their children.  Nor are they increasing their income earning potential, they're simply spending their savings.  Rising real estate prices, increasing availability of mortgage products, and the decline of savings for the public as a whole is creating the "bubble" effect.  The bubble effect occurs when prices rise, spending rises, at a rate greater than can be supported on a long-term basis.  At some point, the bubble bursts.

Your second mortgage, if used to increase the value of your home, will have insulated you against the drop in price.  Your home is actually worth more; therefore, if prices drop you're protected.  This was the original intent of the second mortgage; to provide the consumer with easy access to the savings accumulated in their home for home improvements, emergency events, or in order to better their homes or lives.  You know for the most part consumers do not save money in a savings account; consumers only save money when they aren't aware that they're saving money.  Home equity was one of the last hidden ways consumers were saving.  Second mortgages and other loan mortgage products have managed to eliminate those savings as well. Has the consumer stop to contemplate the consequence of negative saving?  Absolutely not, and our current system of mortgage lending encourages negative savings.

Second mortgages are a great way to access your savings and increase your income tax deductions; they are one of the greatest tools available for financial planning and beneficial consumer spending.  They are also the fastest way to spend yourself in to debt under socially acceptable circumstances.  Many consumers receive offers for credit card counseling, debt consolidation counseling, and financial analysis.  There are never any offers to counsel the consumer concerning their choice in mortgage products, the option of second mortgages, or the consequence of those choices.  Your decision to and a second mortgage can be one of the best decisions you've ever made or your decision can be one based on folly and frivolous spending.  Now, your second mortgage, is it your friend or your foe?

## What Can You Do With a Second Mortgage?

What can you do with a second mortgage, what can you not do with a second mortgage? There are so many options available for second mortgage money that we're going to take an entire article and examine some of those options. Home improvement, college education, business ventures, even a luxury vacation is an option for your second mortgage money.

Let's start with the more intelligent options: home improvements and college educations. Home improvements are often a necessity after several years of occupying your home; when you actually live in a home, everyday use of the home encourages wear and tear. Carpet, appliances, even the paint on the wall begins to need repair. How do you pay for that require? Operating on a fixed income does not leave room for extra repair expense, so how does the average homeowner afford such an expense? Second mortgages are the most feasible option when repairs are needed or expansion is necessary. The interest deduction on a second mortgage if the mortgage is used to increase the value of the entire home, execute repairs within the home or increase the size of the home is a completely tax-deductible interest expense.

What about college education funding? Until recently, the most affordable option for college funding and financing was the second mortgage. Over the course of the last 10 years, private student loans, increased government funding, and the increase in the nontraditional student enrollment have led to a decrease in second mortgage options as a funding option for education. It has not however completely eliminated the second mortgage is a way to pay for college education; and today many parents still find this option the more attractive, affordable, and as a whole, the least expensive option for college education funding. After all, we are simply trading an equity investment in our home, for an investment in our child's future.

Now, let's take a moment to talk about some of the riskier options for taking out a second mortgage or home. Sometimes, we need to take the step into business ownership; sometimes we lack the funding to take that step. The equity we've managed to establish in our homes is an excellent source for that funding but is it the best option for the funding? Sometimes the answers you sometimes the answer is no; at any rate it is quite often the option most exercised by would-be entrepreneurs. My suggestion here is this: if you're taking the money to open a business that is a continuation of your business background, a business in which you have extensive experience and knowledge, then I believe you're making a wise investment. Otherwise, I would not risk the equity and savings in my home.

Well, we looked at some of the better choices for taking a second mortgage, and we looked at some of the riskier choices for taking out second mortgages, but what about some of the just plain nonsense reasons for taking out second mortgage? What are some of those reasons? New cars, expensive vacations, or plastic surgery in my opinion would fall under nonsense reasons. But not according to the average consumer. Everyday, new cars, vacations, and plastic surgery take place at the expense of home equity savings. Or they legitimate uses of home equity in second-mortgage funding? Absolutely. Are they tax-deductible reasons? Probably not; but nonetheless, consumers use second mortgage money every day to pay for these choices.

The reasons given and listed here are but a very small few of the actual examples of consumers spending of the equity in their home. A second mortgage was a tool intended to aid the consumer and provide access to the equity in their home, equity could be used to increase the value of their home or make worthwhile contributions to their family life. And as usual, some consumers actually use the second mortgage for this reason; many consumers, don't. The second mortgage option has become like many other options in this day in time, a fast way to spend our selves into deeper debt.

At some point, the consumer will become ready to retire, retire to a home without a home mortgage payment. The way to accomplish this end is to build equity in a home and payoff the mortgage. That's one thing you can't do with as a mortgage.

## What's a 125?

Let's start this article with a simple question, what is a 125? No it's not the speed limit of the Audubon, nor is at the calorie count on a Snickers bar; today, it is the amount of money you may borrow against your home. Does this seem to make sense to you? That the lender would loan you more money than the home is actually worth? It doesn't make sense to me either.

But, it doesn't have to make sense. The 125 is an actual loan product being offered to the consumer today as enticement to borrow money from a particular lender. In today's market of racing real estate prices and the extremely low interest rates offered by mortgage lenders, the 125 has become a popular product.

You may have even seen all the television ads that promote the 125 mortgage; in fact it's been one of the most highly promoted products to enter the market. Do you understand exactly how the 125 works, however. Many consumers truly do not understand the implication of a 125 mortgage and their five year future. 125 mortgages work in this way: your potential home is worth $100,000, and you're allowed to borrow $125,000. The seller is only asking $85,000 for the hundred thousand dollar home, this means you’re able to borrow $40,000 above the asking price for the home. That leaves an awful lot of money on the table, and you may do what ever you choose with the $40,000. This is an awfully tempting situation for many young consumers.

What might they choose to do with $40,000? Some may buy cars, some may take vacations, and some may simply spend $40,000. Is this the wise choice? The choice for the mortgage lender: absolutely, for the consumer probably not. Although the interest is completely tax-deductible, and the payment may be affordable, it is not allow the consumer to build equity in their home. It promotes excessive spending habits without regard to the consequence of a mortgage that is more than a home is actually worth.

What happens to the consumer if they fall behind in their payments? What happens if they lose their job? Do they have any established equity upon which to draw? No they don't. Nor will they be able to sell their home in order to cover the mortgage loan that exists on their home. You see not everyone operates under the best case scenario.  Sometimes tragedy strikes, sometimes there are just circumstances beyond our control; when this happens if you have no equity, if you have no savings you have no home, but you still have a mortgage.

The 125 mortgage is a great advertising tool, it's a great way to sell mortgages; but it's not often a great buy for the consumer.  Unless, you take the remaining funds, the $40,000, and make improvements upon the home and reinvest the money in the home.  Now the home’s value has increased, is now worth $150,000 and you have only a $125,000 mortgage.  From the consumer standpoint, this is a great benefit it and it was only possible by way of the 125 mortgage.

For the mortgage lender it should be through this type of advertising that we encourage consumers to take advantage of a 125 mortgage; but this is not often the case many times we appeal to consumers based on all the opportunity to spend the money a luxury items.  Items we could not under normal circumstances afford: a new car, a vacation to the Bahamas, or any off a number of items that should be purchased only, as a luxury.

Today's real estate market and real estate mortgage products are more numerous than ever before.  We have more choices, we have more opportunity, than at any other time in recorded real estate history; but we must be careful to avoid abusing those choices and opportunities.  The mortgage lenders, the traditional lending institutions, and the consumer do not often operate with those consequences in mind.  Adequate legislation and adequate education will only go so far; the reminding responsibility is a moral obligation that cannot be legislated.  It can only be encouraged.  So let me take a moment to encourage you, the consumer to make sure you fully understand the applications of your choices, and the 125 loan.

## Buying or Selling, is the Mortgage Your Only Option?

Today, thanks to the ever-increasing use of the internet to seek out homes for sale, and the increased participation of homeowners in the buying and selling process, there is greater interaction between the buyer and seller. Not only is this good for public relations, it is also an excellent opportunity to explore other funding options, for the buyer and for the seller.

It is normal on the part of the buyer to assume their only option when purchasing a home is to obtain a mortgage, but the traditional lending process. This is not always the case, and today more than ever, buyers and sellers are coming together with creative and accommodating ways to affect the purchase, or sale, of the home depending upon your status as buyer or seller.

Quite often, individuals interested in purchasing a home lack the 20% down payment often required from the lender. Provided the seller has established equity of the home, there are other options for the buy and sale agreement. Seller financed mortgages are the most common alternative mortgage option exercised; seller financed mortgages however, are not the only option that can be considered. In this article, were going to take a look at some of the alternative mortgage options that are rarely exercised, but that do provide tremendous benefit to the buyer and seller.

As a seller, the conditions must exist that allow you to offer the buyer alternative options. Your mortgage balance must be considerably less than the fair market sale price or your hands are basically tied. Imagine a scenario: you're ready to sell your home, the buyer is ready to purchase your home, and they simply do not have a 20% down payment. What they do have is a 5% down payment, and the desire to work with the seller and the mortgage lender. You're asking price for the home is $80,000 and the appraised value of the home is $85,000; your existing mortgage is $50,000 and the lender requires the proposed buyer to provide a $16,000 down payment. How can a solution be reached? If you, as the seller are willing to take a second lien on the property, there is a workable solution. The fact that the home appraises for more than the asking price, automatically provides the buyers with a $5,000 level of equity, so they only need $11,000 more to reach a 20% down payment. They have $4000; in order to accommodate the buyers, you could accept $74,000 in upfront mortgage money from the lender, and take a second lien on the $6000 difference. This method works only if you're willing to take the second lien, and the buyers are credible and reputable individuals.

Taking second liens or second mortgages are increasing in popularity as a means to sale increasing value real estate in today's rapidly expanding market. There are other spins offs from the basic formula described, however the scenario above is the most common and provides the buyer and seller with the basis for expanding with creative add- ons. Of course, the seller financed mortgage is still the meat and potatoes of the alternative financing industry.

How does the seller financed mortgage work? Generally, it works in this manner: if the seller owns the home outright he or she may choose to finance a mortgage for the buyer, and set up an amortized loan. Thanks to the readily available personal computer, loans can be constructed that would have only be available via an accountant or lending institution, 20 years ago.

Of course, how you decide as a buyer or seller to ultimately close a deal, will depend on many factors, this may be just one of the more important aspects. How well you know each other, credit ratings, and the dollar value of the mortgage will also affect your decision.

Regardless of the final decision, the opportunity exists to explore other avenue other than the traditional mortgage lending institutions, or mortgage companies. And, sometimes, you never know, the deal from the seller financed mortgage may open more doors than just a mortgage for homeownership!

## Financial Planning and Interest Only Mortgages

I have observed many changes in my life over the course of living it, and I can tell you that as you grow older, Caution will become your friend;

when you're young, you simply throw him to the wind. As you get older, you wait for him to blow by, and then you reel him back in, why? Caution has only a few friends, but several adversaries: Haste and Waste; after several trips around the block with these two, Caution begins to look like a much better friend.

Part of the requirement for being a friend to Cautious, is that you take the time to examine all your options, and make a good sound decision. This is when I was introduced to Financial Planning, 401(k) s, Retirement Funds, etc.

I've told this from a story standpoint, but it is in all honesty, the truth. As you get older you do become more cautious in your investments, with your time and your money. Interest only mortgages are one of those options, that if you're investing in real estate for the short term, and you've consulted with a reputable financial advisor, you might want to consider. Investment portfolios do not generally include real estate, so more than likely this is a business venture or an investment business. In either situation, financial planning is a must. This is one of those options, that should however, be considered only after careful planning and thought. The trade off, may be or may not be to your benefit.

Long-term investments, those with capital gains, and purposes other than a quick profit, I don't' believe are candidates for the interest only mortgage. The interest only mortgage doesn't offer much in the way of building and growing investment value, because you simply never increase the value of the asset to you. You increase the value of the loan for the lending institution, because you are continually providing a profitable situation for the lender. Your principal investment responsibility never decreases.

What about the short-term implications and your financial planning? Well, this leaves many doors unopened and many avenues unexplored. However, given the fact that you're considering the impact of the interest only mortgage product on your financial planning expectations, there aren't very many "short-term" considerations open for discussion. The only short-term advantage to interest only is that your monthly payment is often very low during the term of the interest only payment.

When you consider the impact your 401(k), an MSA, an IRA, or any other tax deferred savings or retirement program can have on your bottom line, the interest only mortgage doesn't really have that much to offer in the realm of tax savings, or tax deferment; yes, it's true that your mortgage interest is tax deductible, but not on a one-to-one ratio. Tax deferred retirement accounts, even SEPs, for the self-employed individual have a one-to-one ratio of tax savings.

Another long-term financial planning consideration: when you would normally have paid out a regularly amortized loan, you will still be paying on the interest only mortgage. What could the potential savings be, for you, if you weren't still paying on a mortgage? The time value of money is a concept that few consumers ever learn to appreciate. It means the dollar you have today, will be worth less tomorrow than it is today, therefore saving today yields a much better benefit than waiting until you're 35 or 40 to begin saving and planning for retirement.

Quite often, your home is your greatest asset, and is the only savings that many consumers have managed to accumulate. If the only payments you have made were for the interest due on the principal, you effectively have no accumulated savings. Now, that might not be an issue for someone in their 20s or early 30s; however, by the time you reach your 40s, you have begun to contemplate retirement, and ways to save for that phase of your life.

As I stated earlier, caution and good sound financial planning may determine that an interest only mortgage will benefit you greatly. But, I would only consider this option only after I had taken time for careful consideration and good financial planning.

## Government Approved Mortgage Loans

What kinds of government approved mortgage loan programs are available for the lender today? There are actually more programs available today than any other time in recorded mortgage history; and the ability to qualify for these programs is an all-time high. In this article were going to take a look at FHA, VA, Fannie Mae, Freddie Mac, the HECM, and the SNAP programs available thanks to government regulation of funding.

And FHA mortgage is the term used to describe a direct primary market lending product. What are FHA loans and how do you apply? Your options for application now are through an approved lender, or via the Internet. FHA, or the Federal Housing Authority was established in 1934 as a part of Franklin D. Roosevelt's “New Deal”. It was the president’s plan to help the country get back on its feet at the end of the Great Depression. FHA loans with a way to provide the funds needed to construct low income housing and provide Americans with the dream of home ownership. It worked, tremendously well and in 1965, the FHA became a part of the

Department of Housing and Urban Development. In the decade since its inception, the FHA has become the largest insurer of home mortgages and has allowed more Americans to live the dream of home ownership at a rate that is in comparable to that of any other country.

The VA loan is simply a spin-off of the FHA loan open only to veterans having served in the Armed Forces. The VA loan was conceived in order to provide returning veterans with the opportunity to purchase homes and start their lives again.

Fannie Mae, or the Federal National Mortgage Association, was established to provide a secondary market for the FHA mortgage loans. In 1938, when President Roosevelt established the Federal National Mortgage Association it was intended to provide a secondary market for lenders to sell mortgages in order to originate new ones. Freddie Mac, followed in a few years, and was implemented to serve a broader base of mortgages. Although Fannie Mae and Freddie Mac are not direct lenders, our current mortgage system would not be in operation nor would we have experienced the success with homeownership we enjoy today.

The home equity conversion mortgage or HECM is a HUD supervised program that works with FHA homeowners who are over the age of 62 to remain in their homes by allowing them to access their home’s equity, sometimes referred to as the reverse mortgage.

The safe neighborhood action plan or SNAP is an FHA supervised effort to improve urban communities. The problem focuses own illuminating drug abuse and cry him in urban areas by providing education, school activities, and assistance for project residents.

Now that we've covered all the government approved mortgage loan programs, let's take a look at the FHA mortgage options available. FHA offers adjustable rate mortgages, fixed rate mortgages, energy-efficient mortgages, graduated payment mortgages, mortgages for condominium units and growing equity mortgages. The more commonly used mortgage products by the individual residential homeowner are the adjustable rate mortgage the fixed rate mortgage and the energy-efficient mortgages. As we move closer to a more energy efficient energy conscious nation, I believe we will see an increase in the energy-efficient mortgages at a greater concern on the part of HUD that will make room for an increase in energy-efficient mortgages. The graduated payment mortgage is an option for FHA homeowners who currently have low to moderate incomes but expected to increase substantially over the next few years; this can be compared to a balloon note or the adjustable rate mortgages in use today.

As you can see, the government has played a tremendous role in making possible the dream of homeownership in this country. Yes, I believe we can say today more Americans live the dream of home ownership than any other nation in the world thanks in great part to the fact that President Roosevelt stepped in at the end of the Great Depression and provided a way to restore faith in the American way of life.

How Real Estate Drives the Interest Only Mortgage Market

The real estate market and the mortgage market are great friends; they generally are seen hand in hand, wherever they may go! One fuels the other's ambitions. Never a truer statement has been made and they (the real estate and the mortgage market) seem to feed off each other, as they both have continued to grow over these last few years.

If a potential buyer has the greater possibility of securing a mortgage, the greater the opportunity to sell a home or buy a home becomes; Whenever the opportunities increase for the buying and selling of real estate, then the prices for real estate increase. Can you clearly see the relationship now and how one drives the other? As the mortgage market has expanded, and the possibilities broadened, so have the prices of homes, the new home construction market, as well as the commercial development of real estate.

The potential for problems exist when this all happens too quickly, or when the growth in one area exceeds the average growth rate of other areas. This is the case with the real estate market and the interest only mortgage. Much of the growth in the mortgage market has been with interest only loans. Many analysts put the interest only segment of the mortgage market at almost 23%. That's a huge hunk of the entire mortgage market and this segment has been responsible for most of the overall growth. It would also seem that it has played a tremendous role in fueling real estate prices. Is this a rollercoaster ride, waiting for the drop, if so, let's hope we're all buckled in!

Let’s take a moment to look at the four areas that contribute to this continued upward growth, and their impact on real estate.

The price of existing homes on the market is a pretty easy one to figure out; if you have your home for sale, quite naturally it will bring a comparable price to the other homes in your area. How does this serve to drive real estate prices? This concept works with a Domino effect, in that when one home increases in value, it also affects the homes around it driving the price, further upward.

The new home construction market is heavily reliant on building material prices to determine the building cost and the contractor's profitability. If building construction is on the increase quite naturally, the prices of building materials are on the increase; when you have an optimistic and growing economy, you will have increases in building material cost.

The other big drive in the real estate market comes from the development of commercial property. In resort areas, particularly the development of real estate property for commercial purposes tends to quickly affect the surrounding areas real estate prices. Many of today's commercial mortgages have reached loan limits well over $1 million; in fact, some of the residential mortgage loans in certain resort areas are approaching the have the million-dollar mark.

Now, when you combine all of these contribute factors, a mortgage market that is extremely optimistic with its lending capital, you have the makings of a market segment, with the potential for a bubble effect. What happens in a bubble effect economy? The bubble continues to grow until it bursts. This is what many analysts and economists fear: that too many consumers are betting the farm on a continual, optimistic spurt of growth.

What could cause our booming economy to rupture? In reality, many conditions can contribute and provide the needed catalyst.

Well, what if there is a continual increase in pricing but there is generally a continual downward spiraling of the ride we're on? Well, if there should be a tremendous downward turn in the investment market, if there is a continuing loss of jobs in this country, or if there are any natural occurrences that lead to disasters that are beyond governmental or company control, you could see a possibility for disaster. Does that mean it will happen? No. It just means that the potential exists. But in the defense of the housing and real estate market, if you're going to be risky, that's the place to be. It's one of the safest risky businesses that exist.

## How to Shop for Low, Interest Only Mortgages

Where do you find low interest, interest only mortgages? Almost every store on the street offers these types of mortgage products, but who is the best, and who is the lowest? That's going to take some work on your part, and maybe just a little luck.

What kind of information will you need in order to shop for and secure a great interest only mortgage, with a great low interest? Well, you're definitely going to need a good credit rating, proof of income, an appraisal on the property, and a little bit of luck. There are several products out there in the interest only mortgage segment of the market, and a few are actually going to have a pretty low interest rate tied to them.

For example, the 3/1 ARM, or the 5/1 ARM, these mortgages should have great interest rates, and if you have great credit, you should be able to find financing to suit your budget, your desire for a low interest rate, and an interest only mortgage that you can live with. These types of adjustable rate mortgages offer the interest only feature for a very limited time, and this is what the average consumer should discipline him or herself to use for financing. Extending the interest only option out past these years, could put the consumer in a dire position, should the real estate market take a downward turn, they're going to be left with a huge mortgage, and property that is no longer worth the original mortgage amount. Now, that's not likely to happen since the value of the average home in America has seen a steady 5 to 6% growth for the last 10 years. But, it could happen. Take a look at the stock market after the tremendous growth spurt of the late nineties.

Other variables in your quest for a low interest rate will be determined by the type of lending institution you choose, the determination of any government program eligibility, and your geographical location.

Banks are traditionally a little higher with their down payment requirements, but their interest rates are usually lower than those of a mortgage company. The exception: online mortgage lending. Thanks to the fact that this is an area of growth that everyone and every company are promoting, they're striving to compete with even the lowest interest rate lenders, in order to grow their market.

What kinds of government approved mortgage loan programs are available for the low interest-only mortgage shopper today? There are actually more programs available today than any other time in recorded mortgage history; and the ability to qualify for these programs is at an all-time high. Fannie Mae, or the Federal National Mortgage Association and

Freddie Mac set guidelines and product availability for homeowners and residents that quality for low- to moderate income based mortgages. They also offer low-interest only mortgages in order to accommodate an ever broadening market. The graduated payment mortgage is an option for FHA homeowners who currently have low to moderate incomes but expect them to increase substantially over the next few years; this can be compared to a balloon note or the interest only products in use today.

Your location will play a key role in your ability to obtain the lowest interest rate using the interest-only mortgage option, also. Prospective homeowners looking to purchase a home in a high end, resort area will, of course, have more choices available, as there are more buyers and sellers competing, as well as lenders for business. The other geographical contributing factor is the real estate market in your area. If the market is great, prices are not suppressed, and there is moderate movement in the buy and sell market, it increases your chances of obtaining the low interest rate you're seeking.

The interest only mortgage product and a low interest rate are not mutually exclusive. They can be paired, and under the right circumstances produce a winning mortgage product for the right consumers. The route to achieving this goal will take education on the part of the consumer, hard work, and a little luck in locating the right mortgage lender.

## Interest Only Mortgage versus Balloon Notes

You would think the interest only mortgage and the balloon have nothing in common, but they do; they're closer than the FRM and the ARM in terms of comparative benefits. To fully appreciate the balloon note option, since for many years it's taken the brunt of the "bad product" review; let's compare it to the interest only mortgage.

The old balloon note, long the product to be avoided, has suddenly become a better friend, even to the more reserved bank mortgage officers. In utilizing the balloon note option, a borrower makes amortized principal and interest payments on the note, as if it were a 30 year note; the catch: if it's a 5 year balloon, the entire balance of the unpaid principal is due at the end of five years, if it's a 10 year balloon, then the entire unpaid balance is due at the end of 10 years. The unsavory aspect of these types of notes has always been the huge payment that was due at the end of a specified amount of time. If the buyer isn't able to find financing at the end of the 5 or 10 year term, or if the property has dropped in value, it's a great way to be bankrupt, or have the property foreclosed on. If you intend to sell your home within a 5 year period, the balloon note option is an excellent alternative that offers a lower monthly payment. But, suppose you don't sell the home? Well you either must come up with the balance of the note, or find an alternative mortgage product. The biggest problem here occurs as you try to deal with the variables in the situation, when the balloon note matures.

When the note matures, if the interest rates are high, or if the real estate market is experiencing a slump, you may be forced to accept a higher interest rate, or produce a very big down payment with a new note. Either solution means that the conditions aren't favorable for the homeowner. But is this so very different from the interest only mortgages?

The interest only mortgages are interest only for a specific term of time; then the principal and interest become due on the note, at a much higher monthly rate. The only difference here is that the lending institution is locked into a 20 or 30 year note. But the borrower is no better off, if he or she cannot afford the payments at the higher level, there still exists a greater potential for bankruptcy or foreclosure.

Thanks to the booming real estate market, and the expansion of the mortgage product market, the increase in purchasing power has enabled many prospective homeowners to actually make a dream a reality. However at some point, the market will cease to boom, and the mortgage market will cease to expand. Will the consumer that purchased the interest only mortgage or the balloon note, be able to afford the consequences, should the home suddenly not be worth the original loan amount? Let's hope for the sake of the unwary homeowner, this is a situation we do not soon encounter. And, for the most part, I don't believe we will. Thanks to the natural disasters along the gulf coast, and the continued demand for real estate, building materials, and existing housing, the prices we're currently experiencing, along with the growth we've seen for the past couple of years, should continue.

There are other, more stable loan products available, but these products don't provide the kind of flexibility for the mortgage lender or the borrower, that the interest only mortgages and balloon notes do. They also don't pose the risk these two loans. The interest rates, however, are very competitive on the interest only and balloon, and I don't' look for the general public to decide in favor of safety over savings. After all, nothing ventured, nothing gained.

Now, you see the old balloon note looks a little sharper than he did before the interest only mortgage moved in. At least with the balloon note a part of the monies paid each month are applied to the principal balance. With the interest only mortgage, all of the payment monies are applied to the interest, so at the end of the interest only term, you still owe as much principal as you did in the beginning. It would seem to me, it's six of one, half a dozen of the other. The borrower really isn't making any progress, either way.

## MSAs, IRAs, and Interest Only Mortgages

Interest only products and the mortgage market don't seem like they would have anything to do with an MSA, SEP or an IRA; but they can, and sometimes it's to your advantage if they do. First, let's explain what an MRA and IRA are, and how you can use them to your benefit. While offering the explanation, we'll look at how they can be used in conjunction with interest only mortgages as a benefit to the consumer.

An MSA, or medical savings account is a tax-deferred way to save money, especially if you are self-employed, and do not have a 401k or medical insurance. The medical savings account gives you a tool for taking a deduction straight off your bottom line, thereby reducing the amount of tax you owe. The mortgage interest portion of your mortgage only provides a tax deduction in the form of an itemized deduction, and it is limited to a certain percentage of your income. Refinancing, or first-time financing of your mortgage with an interest only mortgage, can be used to pull more of the equity out of your home, or save money on mortgage payments that can be used to fund an MSA account.  The biggest drawback to this kind of savings is the penalty you pay if the money is not withdrawn for its intended purpose, paying for medical expense.  If you find yourself in a situation where you must have the money, and it's not for medical expenses, you can pay up to 10% in penalties.

The IRA or individual retirement account works on the same premise as an MSA.  The IRA is intended to give the consumer a way to save for retirement, when there is not a retirement plan where they work or they're self employed.  The interest only mortgage can be used in the same way as was explained above, and with the same restrictions.  The IRA account is supposed to be used by the consumer as a tool for retirement savings; if the money must be withdrawn prior to reaching a certain age, there is often a 10% penalty to be paid on early withdrawal.

The SEP is the equivalent of the 401(k) for the self-employed individual.  How does the SEP work? Basically, you as a self-employed individual can allocate up to $20k each year to be put into an SEP, or self-employed pension.  The money is treated as tax deferred income, and it comes directly off your AGI, just as if you participated in a 401(k).

As you can see, the MSA, IRA, or SEP offer the consumer direct one-to-one savings by reducing their AGI, or the amount of income for which they are going to incur a tax liability.  The mortgage interest portion of their itemized deductions is not a dollar for dollar reduction; it is limited to a percentage of your AGI.  But what if you could find a way to benefit from both deductions?  Would that not create a more beneficial tax and savings situation for the homeowner?  Quite possibly, and the only way to assess your real savings is to sit down with a financial analyst and look at your individual situation.

The only way to really benefit from this possible scenario, however, is to make sure that you have ample savings from the interest only mortgage payment versus the traditional payment, to justify making such a move, and that the money will actually make it to a tax-deferred savings account.

What is the potential savings for the consumer? Well, imagine the following situation: self-employed taxpayer wants to buy a home. He has $10,000 available in cash to either put down on the house, or put into an SEP; his tax liability without the SEP will be $8,000. With the $10,000 SEP, he would receive a refund of $600.00. He can only afford to make mortgage payments of $600; the house he's chosen financed with a fixed rate mortgage would be $826 each month. Using the interest only mortgage option, his monthly payment for the next 5 years is only $488 and the mortgage product does not require a down payment. It frees up the $10k to be put into the SEP and the taxpayer benefit will also include deductible mortgage interest. As you can see, with this illustration, financial planning and fully utilizing your options can make a tremendous amount of difference in your life.

Let’s assume that you’re one of the new age consumers, who fit into the fastest growing segment of the mortgage market today, the interest only mortgage. It is time to you to secure a mortgage, and there are several loan options that can be tied to the features you desire; you're particularly interested in the interest only feature that seems so appealing to many consumers today. But have you stopped to question why the interest only feature has become so popular with consumers today? Are you aware that it is a re-born feature laid to rest in the great depression of the 20s?

Have you stopped to examine the purpose of the interest only loan and what purpose it will serve in your particular situation? The original intent of the interest only mortgage was to make home ownership more appealing to young couple; not every prospective buyer, however, is a young person looking to buy home. Careful evaluation of your situation and the interest only mortgage must be performed in order to secure the best mortgage possible.

Let's take a look at the original intent of the interest only mortgage, and the greatest benefactor in the interest only mortgage segment: the short term homeowner. The idea behind the interest only mortgage product was to give the short-term homeowner a race in the buy home, with or down payment requirements associated with the standard mortgage. This idea worked so well, that now almost every kind of homeowner is exercising their interest only mortgage option. As it was only ever really intended to benefit the short term homeowner, the interest only mortgage product is currently used as a means to buy “more home for less money”.

The appeal to the short term homeowner segment of the market was a way to grow the housing industry, since this particular type of buyer, normally only rented. In most short-term home ownership, situations, the buyers are young professionals in the beginning years of their career, who have tremendous potential, and almost always a guarantee of purchase from their company should their home remain unsold after one year on the open market. As you can see, the consumer who was initially targeted for this type of loan would truly see a benefit from the interest only mortgage product. Today, however, the consumer actually applying for the interest only mortgage product is a consumer who seems to be spending beyond their income means.

What we have discovered, with today's consumer there is an overwhelming tendency to purchase more home than can possibly be afforded; the reasoning behind such a purchase? Since the term of the interest only segment of the loan will normally run three to five years, many homeowners are borrowing based on "anticipated earnings". Quite often, the anticipated earnings never materialize, and at the end of a five year interest only term, the homeowner is left with a much higher mortgage payment minus the increased earnings.

As with many other modern-day products packaged and sold to the consumer, it sometimes is not always the wisest choice, the best buy, or the greatest benefit to simply follow suit; sometimes, educating yourself as a consumer is a much better, and a much more affordable choice.

The long-term, homeowner purchasing to procure a safe haven from which he or she can retire and be assured of a decent home, is not a benefactor, nor suggested candidate for the interest only mortgage product; however, in the attempt to grow this product into a larger share of the mortgage market, many interest only loans have been advertised as ways to pay off credit card debt, avoid a down payment, and create greater tax savings at the end of the year. None of these reasons, within itself would be a "good" reason to purchase an interest only mortgage product.

Many of the local lending institutions, especially the banking industry, have shied away from the open arms welcome that the interest only product received in the mortgage company circle, simply because the loans are a riskier prospect, and many times consumers aren't as educated about the choices they are making. When you misuse a product, you begin to run into problems, and create a potentially dangerous market situation.

## What is a Home Mortgage?

Although this is a pretty straightforward question, how many individuals do you know that ever take the time to ask, and receive an answer? Not very many. More often than not, the question of a home mortgage isn't pondered until there is a desire to purchase a home. For the purpose of this article, we're simply going to examine the home mortgage, and the variations that exist in the mortgage market today.

A home mortgage is a loan furnished by lending institution to a buyer for the purpose of procuring residential property, are a home of which to live. It's that simple, the definition is that simple; the actual process is anything but simple. How do you approach mortgage lenders and what information what you need to furnish?

Mortgage lenders today, thanks to all the federal regulation, default rates, and identity theft in existence require more information than ever before.  The mortgage application is sometimes a 10 to 15 page application that will ask questions pertaining to your life years prior.  Why does the mortgage company want history? The lender simply needs previous addresses, previous jobs, and previous education to gain greater insight and opportunity to know the borrower.  It is not entirely impossible to steal someone's identity, gain access to their current information, even from three to five years prior.  What is impossible is to enter the mind of the individual and gain access to relevant work history or education history.

Generally, when you complete a mortgage application there's also a mortgage application fee charged at the time you submit the application; why do the mortgage lending institutions charge an application fee? Mortgage companies charge a fee because it cost money to process application, and only serious applicant's warrant the time and expense.

What other information will be necessary to furnish when completing the mortgage application?  Generally a personal financial statement, the proposed mortgage amount, and any legal judgments against you such as bankruptcies, tax liens, or federal student loans will be requested at the time of application submission.

Now, what have the mortgage products are available to the mortgage borrower?  The most often used mortgage product is the fixed rate mortgage; the next in line would be the adjustable rate mortgage, and the newest member of mortgage products would be the interest only loan.  The interest only loan is gaining in popularity at an ever increasing and phenomenal rate of growth.  The fixed rate mortgage provides the borrower with a fixed interest rate for a specified number of years, generally 10, 15, or 20 years as a set monthly payment.  The adjustable rate mortgage is exactly as it sounds; the interest rate for this type of mortgage is adjusted at set intervals generally no less than six months no more than 12 and the amount of the monthly payment will vary according to the adjusted interest rate.  The interest only loan is quite frankly, the least consumer friendly of the three and today the most popular of the three.  When you take at an interest only loan, you may payment of only interest for a specified number of months or years on a loan that has been amortized for a greater number of years, usually 20, and at the end of the interest only term, your payments will reflect interest and principal payment.  It's at this juncture that many homeowners cannot afford the interest and principal payment.  That's why this mortgage product is the least consumer friendly; it does however make the most profitable lending institution.

I believe you should now have a much clearer picture as to what a mortgage is, why you complete a mortgage application, and the basic mortgage products available.  If you are considering the purchase of a home, please take a moment to visit a local lending institution, a local realtor, and the web site of the Housing and Urban Development Department.  You, as a potential homeowner can never obtain too much information.

What are other resources that can be accessed to learn about the mortgage process and your available options? Get online, check out the advertised lending companies there; look at the information they ask for, the products they offer, and then do some comparison shopping.  Often, you will learn as much about what you don't want, as what you do want.

## Interest Only and Credit Card Debt

Well, here is an example of the system that isn't functioning as intended: a mortgage loan that encourages paying off one debt, in order to overspend ourselves with another debt. The interest only mortgage and the credit card debt. As a borrowing nation, I believe we've reached new levels.

It would seem that in this century we've managed to take every form of credit possible, extend it to the limit, and then look at them as if to say, "You mean you can't pay?" What do these loan and credit companies think they're going to be facing, when the amount of credit and mortgage they're willing to extend, reaches beyond the acceptable debt to income ratio? Why do they think these limits were established in the first place?

More consumers than ever before owe massive credit card debt. It's the way to go, many college campus' are overrun with representatives from the major credit card companies, eager to extend credit to the young hands of the college student. Are they as ready to work with them when they can't pay? No. What about the rest of the crazed, spending public? How do they handle their credit cards? Well, thanks to the interest only mortgage, we can now pay off credit card debt we can't afford, with a mortgage we can't afford. Now, that's progressive thinking.

The interest only mortgage is now a tool for replacing non-deductible over extended debt, with tax deductible over extended debt, and consumers continue to be the ones to pay. This is not a wise option, if you're already spending more than your budget will allow, how about cutting back? Did that ever occur to the mortgage company? No, because they don't make any money if you learn to spend less.

As a fellow consumer, each of us should take the time to question our spending habits. Is it wise or necessary? If the answer to either question is no, then don't spend. You don't want to have to make the decision between over the limit spending, and a nice, warm bed, do you?

Okay, now here's an interesting spin on an already risky product, let's give the bad credit crowd a chance to make an even worse decision, and finance a home they can't really afford and obviously will have trouble making on time or dependable payments so they can payoff credit card debt, only to charge it up again!

Sometimes, the products and situations that you see in the everyday world of researching these loans, is truly amazing and this is one of those situations. There are actually mortgage companies that advertise these interest only mortgage options for the consumer with the bad credit record to pay off any outstanding credit card debt!

Now, what I'd like to know is why the mortgage company, in all good faith, would want to take a risk such as this. It's risky financing for consumers with bad credit, when you're financing with good solid collateral, well within their means to pay. You take the consumer and the mortgage loan outside those realms of operation, and you're just simply asking for a problem.

Maybe we should have an agency that's known as the "mortgage police" and when there's a clear and evident violation of just good sound common sense, a whistle blows, the computer locks up, and in walks the mortgage police. I truly believe the consumer, if not the mortgage company would be a lot better off; especially when the consumer has time to really absorb the basic facts about interest only mortgage, and the mess they can make of their finances; in the case of the bad credit consumer, the further mess they can make of their finances.

With all the government control that regulates the mortgage loan industry, and all the statistics that are published about the consumer with a bad credit rating, who do you suppose thought it would be a good idea to give them an interest only mortgage, that they more than likely will have further trouble paying? You wonder if Alan Greenspan is aware of this situation, and if he takes it into consideration when raising the prime interest rate? Do you suppose there's a number factor for the "really going to default on these loans" segment of his equation that determines our prime lending rate?

Let's hope Alan uses more foresight and plain good business sense than our mortgage loan brokers, especially the ones that came up with this genius idea!

## Interest Only Mortgages and the LIBOR, What is it?

What is LIBOR and why would we want to use a LIBOR? How does LIBOR tie into interest only mortgages? These are really good questions. I myself until recently had no idea what a LIBOR was or is, or if I wanted to use one. I am a little more educated now, and still don't know if I want to use LIBOR.

LIBOR is the London Inter Bank Offered Rate. In a more useful definition, it is the interest rate offered by a specific group of London Banks for U.S. deposits with a stated maturity date. It compares to the CD rate that your local bank would offer to you.

The important connection to make here is the role the LIBOR plays in interest only mortgages. As more and more of our mortgage loan market turns to this type of loan product, we will begin to hear more about LIBOR and the many uses and influences in our day to day life.

The LIBOR has traditionally been a tool for the commercial lender and affected more of the commercial market than the private sector. As the private market moves into a bigger risk sector than ever before, the LIBOR will loom as a larger figure in the ratio used to determine the interest to risk factor that your local banker, mortgage company, or finance company will assume. The interest only mortgage option is a bit riskier than the traditional mortgage products, in that it requires little or no down payment, and over the course of the mortgage, the interest is the only initial monies collected. That means at the end of the term, say 5 years for most, the buyer still owes the same amount of principal. Risky business, this interest only loan. This is where LIBOR begins to play a bigger picture. Commercial loans, primarily an investment tool, have traditionally been considered the bigger risk, since these loans weren't providing housing for the borrower. But today, the private borrower is investing no more than a commercial borrower; in fact many times, even less. These new age borrowers aren't really that committed to these homes, either. Most are using the interest only option as an investment tool, or a way to buy bigger than traditionally possible, or as a way to fund a professional lifestyle with a starting salary and an expected temporary stay. Either option means a bigger risk for the lender; LIBOR helps to set risk percentages and provide stable financing options for the lender.

The commercial interest only LIBOR mortgages are for commercial borrowers. These borrowers are investing in residential unit complexes. In other words, they're borrowing to buy apartment complexes, not individual homes; nonetheless, they too are being offered the interest only options and the interest rate for these commercial interest mortgages is set by the LIBOR rate plus a certain percentage above.

It is for these commercial investors that the interest only loan options should be used. The borrowers are business people, with business plans, and enough knowledge about the workings of commercial and mortgage loans, to understand a good investment versus an impossible dream. The commercial mortgage industry is a huge market, and since most of the monies borrowed exceed the $100,000.00 limit, LIBOR rates are used for determining the commercial loan rates.

I still am not an advocate of the interest only mortgages; but for some situations they are the best option. In a business setting, when many factors have been thoroughly discussed and the interest only option has proven itself to be the best choice, I think it should be used. This option, however, should remain as the knowledge of LIBOR is among the masses, virtually unknown.

So, as you begin your trek into the mortgage market, be prepared to hear more and more about the interest only loan options, and more and more about the role LIBOR plays in this expanding market.

## Interest Only Mortgages and the Young Professional

Here is one of the successful candidates for the interest only mortgage. The young professional that is eager to get out into the home ownership market. He or she is equipped with some level of mortgage product comprehension, and a guarantee of increasing income.

Today's mortgage market has seen a tremendous growth in mortgage packages, variety and borrowing levels. The interest only mortgage option, once thought to have gone the way of the Edsel automobile, is back today and in use by the masses; in fact the mortgage market has seen an increase in the interest only mortgages from just a mere sliver of the market a few years ago, to around 23% of the market share currently. That's huge growth, especially in the mortgage industry in less than 5 years.

Who will benefit most from this type of mortgage loan product? What type of consumer is it that would want an interest only mortgage? Well, you will get several answers, but only one or two will be correct. The really smart and savvy borrower, with clearly established goals and objectives that include the interest only option, the young couple that are moving up the corporate ladder and won't be in the area over three years, and then there's the most often sited consumer: This consumer is buying a home with a fairly limited budget and wants as much home as they can possibly buy. They generally fit into the category of the couple with children, who need room and who plan to be homeowners at that location for a while. The other particularly successful candidate for these types of loans are the young real estate investors, who are profit creators, and won't retain the property long enough to warrant making a large capital investment.

As you examine the young professional, his or her situation is conducive to minimal investment requirement. He or she won't be in this job position or this home over 5 years, and the most likely, the company is willing to include a buy back clause in the employment contract; how can you lose? All the right elements are in place for this to be a great marriage of needs and wants being satisfied with one package. In cases such as this, the interest only mortgage option is a great route to take.

What about the young couple with the growing family? Are they the right candidates for such a purchase? Most often, the answer would be yes. They're budgets are limited, for the present, and their family is outgrowing the present home. Especially if one of the spouses holds a professional degree, they should have no trouble growing into a larger mortgage payment within a few years. The interest only option gives individuals 3 to 5 years to achieve an income increase, then the principal and interest payment level kicks in, but their income will then support a higher payment.

The real estate investors, commercial developers, land brokers, and any other investor that operates within this realm of business, is a potentially successful candidate for the interest only option. This person, or business group, doesn't intend to retain the property long enough for there to be a need for capital investment. They need the capital free to make the changes, required planned construction, or to advertise the property for sale.

These are the potentially successfully and beneficial relationships that exist with the interest only option. Are these the only individuals who secure interest only mortgages? Definitely not. Regardless of the pros or cons to the interest only mortgage, and regardless of the original intent, many of the consumers securing these interest only mortgages are doing so in order to lower monthly payments, to buy more house for less money, and even to divert income to tax-deferred savings. Some will be successful some will simply wind up paying on their home for most of their life.

## Interest Only Mortgages for the Wealthy Investor

It is for these types of investors that the interest only mortgage options should be used. The borrowers are business people, with business plans, and enough knowledge about the workings of commercial and mortgage loans, to understand a good investment from a bad. The commercial mortgage industry is a huge market, and since most of the monies borrowed exceed the $100,000.00 amount, the international bank rates, or LIBOR, are used for determining the commercial mortgage rates.

Wealthy investor usually means successful investor. These investors are very educated in the investment process, be it real estate or stocks, they understand the risks they're taking, and how to maximize the risk for the profit. The real estate investor and the interest only mortgage are a perfect pairing. The real estate investor looking to retain an investment for short term can really benefit from the lowered capital investment of the principal payment. Especially in a situation where the investor is improving the property and the value is certain to increase.

Many of the consumers, who are being offered these interest only loans, are not business people; they're not wealthy investors looking for a way to invest excess capital. They're simply consumers looking for a place to live.

The investor normally has an investment analyst at his or her disposal, with tools and resources that can determine a good investment, the risk involved, and measure it against the amount of risk the investor is willing to take. All these factors go into determining if an investment is a buy or sell.

This particular borrower fully understands the risks involved in an interest only mortgage, and has spent the time needed to determine if the product is right for his investment needs. The real estate investor is a business person, not a consumer borrowing to pay for a place to live

When you compare this with the consumer buy or sell, you're not even comparing apples to apples.

Some investment opportunities for the wealth-building investor will at some point require an additional amount of monies to turn the investment into a profitable situation; do you suppose the average consumer has another ten or fifteen thousand dollars at their disposal, in case the interest only option should become a problem, or they're home should need unexpected repairs, in order to remain at the purchase value? Most likely, the answer here would be no.

The short-term real estate investor or developer wants to keep his or her expenditures at a minimum during this investment period, saving as much of the expendable cash as possible for the actual renovation or preparation for sale of the property itself.

The less money spent on mortgage payments, or in the investor's eyes, investment expense, the more money there is to actively and aggressively pursue potential buyers and increase the value of the property. This is good business, and good business is based on sound business decisions.

It is here that every consumer needs to stop and reevaluate their borrowing situation against that of the investor. The wealth-building investor is a business person. Their livelihood depends on their knowledge of the product they market, in this case real estate. Normally, a business person is not going to take a risk with their personal investments; not like the risks they will take with a business investment. Why? Because the home they share with their family is much more important than a business deal, most are not willing to risk losing their home.

I still am not an advocate of the interest only mortgages, but for some situations they are the best option. In a business setting, when many factors have been thoroughly discussed, and the interest only option has proven itself to be the best choice, I think the interest only mortgage should be used. But this option should remain as the knowledge of LIBOR is among the masses, virtually unknown.

## Interest Only Mortgages: A Risky Real Estate Move?

Well, let's examine this information, one piece at a time. The first piece to examine is the basis for the desired interest only mortgage product. What type of investor is looking for the interest only mortgage? Many of your real estate investors are business people, looking for a way to maximize their profit, while minimizing their capital investment.

It is for these investors that the interest only mortgage options should be used. The borrowers are business people, with business plans, and enough knowledge about the workings of commercial and mortgage loans, to understand a good investment from a bad one. The commercial mortgage industry is a huge market and the interest only mortgage product serves this market segment well.

Today, however, we live in a society that encourages instant gratification, and the concept of me, me, and me. In this society of self, this new player has emerged, the interest only mortgage, and he's a big hit with those self-gratifiers. The interest only mortgage allows a buyer to purchase more for less. More house for less money is the concept being used to sell this interest only product to the average consumer, and I don't think impulse buying is a good thing when it comes to your mortgage. An interest only mortgage cannot serve a good purpose, except for the right consumers under the right circumstances. Those circumstances are few, and the average consumer doesn't fit into the category most of the time.

The interest only mortgage is not a risky move, if you're business oriented, with a business purpose, beyond that of living above your financial means.

I still am not an advocate of the interest only mortgage, but for some situations they are the best option. In a business setting, when many factors have been thoroughly discussed, and the interest only option has proven itself to be the best choice, I think the interest only mortgage should be used. But this option should remain as the knowledge of many other financial options among the masses, virtually unknown.

A tool being used by many commercial lenders to offset the risk involved with the commercial interest only mortgages is known as LIBOR. The LIBOR has traditionally affected more of the commercial market than the private sector. As the private market moves into a bigger risk sector than ever before, the LIBOR will loom as a larger figure in the ratio used to determine the interest to risk factor that your local banker, mortgage company, or finance company will assume. The interest only mortgage option is a bit riskier than the traditional mortgage products, in that it requires little or no down payment, and over the course of the mortgage, the interest is the only initial monies collected. That means at the end of the term, say 5 years for most, the buyer still owes the same amount of principal. This is where LIBOR begins to play a bigger picture. Commercial loans, primarily an investment tool, have traditionally been considered the bigger risk, since these loans weren't providing housing for the borrower. These new age borrowers aren't really that committed to these homes, either. Most are using the interest only option as an economical and inexpensive way to fund their ability to turn a profit with little or no investment. Each option means a bigger risk for the lender; and LIBOR helps to set risk percentages and provide stable financing options for the lender.

The commercial interest only LIBOR mortgages are for commercial borrowers. These borrowers are investing in residential unit complexes. In other words, they're borrowing to buy apartment complexes, not individual homes; nonetheless, they too are being offered the interest only options and the interest rate for these commercial interest mortgages is set by the LIBOR rate plus a certain percentage above.

It is for these commercial investors that the interest only loan options should be used. The borrowers are business people, with business plans, and enough knowledge about the workings of commercial mortgage loans, to understand a good investment versus an impossible dream.

Is the 20% Down Requirement Still Alive?

Today more than ever, a generation of homeowners will increase their debt to equity ratio by more than 30%; what has happened to increase the debt and decrease the equity? Many of the mortgage loan products available today do not require a down payment. Until recently, if you were interested in buying a home, you were required to put 20% percent down and finance the balance. Now, prospective homeowners are allowed to borrow up to 125% of the home value! This equates to a negative investment. How did we get here?

Imagine this scenario: as you graduate and are ready to exit the college campus, you get married, and now you're ready to move into that first home. Do you have any money to put down on the home? No. Are you required to have any money to put down the home? No. At this point, brake lights should come on at the mortgage company; today however many mortgage companies are accelerating not stopping. Never before has there been a time when a consumer could walk a mortgage company, declare they have no money put down, and walk away with a huge mortgage.

The interest only loan options and the 125 loan options are encouraging consumers to spend way beyond their financial limitations. And there is responsible for the creation and promotion of these types of loans? The mortgage companies are the creators and promoters. The increase in the popularity of the interest only loan, and the fact that it can be tied to so many different loan products, make it one of the more popular options in today's market; so popular, that it has grown to a huge one quarter, or 25 percent, of the entire market.

Are these mortgage companies requiring a smaller down payment, maybe 5% or 10%? No, they aren't requiring any down payment. What message does this send to the young consumer? Not a very good one. You don't need to be a financial analyst in order to determine that 0% down equates to 0% equity, in most situations. What does this mean to the young homeowner? If there's no equity in a home, there's no security in the home; there's no encouragement to save, there's no encouragement to plan.

If you begin to check with local lenders, and traditional lending institutions you will find a 20% down payment requirement is alive and well. Many traditional lending institutions realize what many mortgage companies seem to overlook: a homeowner with no investment is a very risky proposition. Something as important as your home, should be worthy of personal investment.

So why are there huge gaps between mortgage companies and traditional lending institutions? Traditional lending institutions aren't as interested in the profit to be had for mortgages, as the mortgage companies. Traditional lending institutions offer a range of products to accommodate the consumer: banking, commercial loans, and savings provide other avenues of income for the traditional lender. Mortgage companies, on the other hand, exist to serve only the mortgage market. For that reason, mortgage companies are willing to extend credit without the required traditional down payment. The mortgage companies have been very creative, and we now have mortgage products to fit every type of consumer. Many of these products are very appealing to the young consumer, with very little savings.

Most of these new mortgage products are designed to appeal to the young borrower, but to date, they are also appealing to older consumers. What are some of the mortgage products available that require zero down? The 1% interest loan, the interest only loan, the 125 loan, and many of the balloon note mortgage products require no money down. The standard fixed rate mortgages and the adjustable rate mortgages still were best if there is a down payment of some amount, and very few are sold without a down payment. Many of the standard loan products still require a 510 or 20% down payment and still offer a better interest rate. In requiring a down payment, a mortgage lender accomplishes two things: a cash security against the value of the home and it requires the borrower to put effort into acquiring the mortgage.

## Lending Programs through the Government

Many years ago, many leaders in our government realized the importance of homeownership and instituted some programs to make that ownership a reality. Not only is our home a shelter for our families, and a good investment, it is a dream come true. Until recently, for many individuals homeownership would never be anything but a dream; thanks to the creation of Fannie Mae and Freddie Mac more individuals now own homes than ever before.

Since the origination of the Fannie Mae program, and then the Freddie Mac, millions of families have achieved homeownership through these government programs. What exactly are Fannie Mae and Freddie Mac? Let's take a few paragraphs in this article to explain what they are and how they work.

Fannie Mae, also known as the Federal National Mortgage Association, is a huge clearinghouse for mortgage lenders to sell locally originated mortgages and replenish their mortgage origination funds. Upon creation of the Fannie Mae program in 1938 the government proposed to oversee and regulate the mortgage market and expand the flow of mortgage money by creating a secondary market. Freddie Mac, also known as the Federal Home Loan Mortgage Corporation is a continuation and extension of the Fannie Mae idea.

In order to truly understand how they work and appreciate the depth upon which they work, you must have a better understanding of the real estate and mortgage market in the United States. Fannie Mae and Freddie Mac provide the primary market lending companies with a secondary market in which they can sell your mortgage, to a large clearinghouse. Your mortgage loan originator is then able to take the monies received from selling your mortgage, and originate new mortgages. This keeps the cycle of home ownership and investment a continual process.

Fannie Mae and Freddie Mac are now private stockholder corporations, but in the beginning they were government subsidiaries. Now, they work closely with Congress in order to provide support for homeownership in rural housing, and rental housing. The private stockholder that has ownership in Fannie Mae or Freddie Mac is the average American, or average investor such is you and I. So not only are we the recipients of funding from Fannie Mae and Freddie Mac, we are also the investors in Freddie Mac and Fannie Mae. Other than through private stock investment (that comes from you and I) Fannie Mae and Freddie Mac issue mortgage backed securities; these are offered in exchange for pools of mortgages from lenders that you and I go to when seeking the funding to purchase a home. These mortgage-backed securities are issued to investors as a guarantee that all investors will receive timely principal and interest payments, irregardless of the status of the mortgage; in return for this guarantee, Fannie Mae and Freddie Mac programs receive a fee, and these fees serve as an additional source of income for the programs.

How do Fannie Mae and Freddie Mac determine which mortgages they will buy? Both organizations continually set limits and guidelines that determine which mortgages qualify and which do not. Jumbo and super jumbo loans have not traditionally fallen within the Fannie Mae and Freddie Mac guidelines; FHA, VA and energy-efficient home mortgages generally do. However, as the housing market continues to climb, the Jumbo and Super-Jumbo loans may become a part of the Fannie Mae and Freddie Mac programs.

Ultimately, the Fannie Mae and Freddie Mac programs are designed to simply keep housing affordable (and guaranteed) for the low, moderate, and middle income citizens. The loan limits are adjusted each year in order to keep up with fluctuating housing prices, and in order to accommodate individuals who may live in areas where housing can experience tremendous increase. Thanks to the increase in technology and Internet access, the process of building, buying, or selling a home has become faster, easier and less expensive.

What types of mortgages qualify for the Fannie Mae and Freddie Mac program? Today almost every loan product available can be bought or sold under the Fannie Mae of Freddie Mac programs; however, the government is taking the initiative in reviewing the stability of all the new and possibly unstable loan products. Interest only loans, fixed-rate mortgages, adjustable rate mortgages, 125s, even some of the balloon notes are candidates for Fannie Mae and Freddie Mac. Lesser-known mortgage products that also qualify for Fannie Mae and Freddie Mac are the energy-efficient and renewable energy mortgages; these mortgages encourage the homeowner to incorporate energy-saving, renewable sources for energy consumption and even possibly selling some back to the utility companies. Other programs less popular with Fannie Mae and Freddie Mac are the community-based, lender partner programs in existence to create products and technologies that will reach underserved, low-income communities. It is through programs such as this that Fannie Mae and Freddie Mac continue to foster the growth of homeownership and the American Dream.

## Middle America Goes Upscale on Interest Only Options

Have you ever noticed if given the choice, day average consumer is going to buy as much as possible on as little as possible. Now that's okay if you happen to be buying an air conditioner, or a pair of shoes or a pair of blue jeans; but when it comes to your home mortgage, bigger is not always better.  In the real estate market of today there are many analysts all both sides of the fence that will argue for or against the interest only option and the effect it has on consumer spending.

Right now the vote is still out on exactly what it will cost the taxpayers should we experience a tremendous drop in real estate prices. During the first half of the century the interest-only loan was used extensively.  When the Great Depression began, unfortunately, many homeowners who had made use of the interest only loan lost their homes. Today, the interest only loan quarters a full one fourth of the market segment, and that kind of growth is frightening to every economist associated with the real estate market.  Why does this kind of growth frighten an economist?  The answer is simple: exploding growth in real estate that creates this type of loan market growth is not always stable.

Now, what happens to the consumers who have purchased the interest only loan and the real estate prices drop? What if they owe more now than their property is worth?  See, this is where the economist gets really frightened.  Defaults on loans, bankruptcies, and a tremendous burst of the real estate bubble could be the resulting conditions.

What else has happened here?  Once again consumers have managed to overspend themselves and live beyond their means.  Apparently in an optimistic and booming economy this seems to be all right, but when the economy takes a downturn and real estate prices drop, what happens to the consumer with the interest only loan, and no equity?  I will tell you what happens.  Homeowners can no longer support the mortgage, or rather the real estate value can no longer support the mortgage, and when it is time to refinance a home there is more mortgage than home.  In the defense of the homeowner, many of today's mortgage lenders refuse to counsel the consumer about the real consequence of borrowing beyond the value of the home, or borrowing without investing in the value of the home. Eventually, living beyond your income levels will result in a negative impact.

Consumers don't often consider the worst case scenario especially during the time of purchasing a mortgage product. No one assumes the worst; everyone likes to imagine that everything will work exactly as planned. But if your monthly mortgage payment stretches you to the limit and if the budget doesn't leave room for reserve, you're going to find that at some time you'll be short. If you're using the interest only mortgage loan to purchase a home that is really bigger than what you can actually afford with a standard mortgage watch out.

Thanks to the exploding growth of the mortgage loan segment, especially in the interest only loan, you can now buy more house than ever on less money. No down payment requirements and a nice affordable mortgage payment. The problem however is that the borrower who uses tomorrow’s salary to buy tomorrow's home today, will usually have the same spending habits when tomorrow’s salary is today's salary.

There are individuals for whom the interest only loan is a tremendous benefit and is a perfect fit for the loan. The young professional with a great future, and no intention to remain in the area for more than five years, is the perfect candidate for an interest only loan. But very few of the actual applicants with interest only loans fit this description. Unfortunately, many of applicants for the interest-only loan are simply consumers who want more house for less money. The big house, with the great job, and the picket fence with 2.5 children is a great dream to have. You just need to make sure before you step onto the dream cloud that you've got the net beneath you, something must catch you when you fall!

Myths and Mortgages

Some of the mortgage companies today, sell their mortgage packages with every kind of mythical benefit known to man, from the belief that interest only is a real mortgage that will eventually payout (slight of words, there) to the belief that an interest only mortgage carries a lower interest rate(which is does, but only for the short term). Let's start with some of the more traditional loans, and move into the weird and unusual.

There has been a tremendous jump in the available interest only mortgage packages in the last three to five years so maybe we should take a minute to break down some of these mortgages into a language everyone can understand

There's a 3/1 ARM. A 3 year ARM, means that the interest rate is locked in for 3 years. For the first month, the interest payment is only 1%, for the next 3 years following only the interest is due as the monthly payment. After the 3 year term, and for the remainder of the life of the loan, normally thirty years, the interest rate will change, and the payments will begin to include principal and interest.

There's a 5/1 ARM. A 5 year ARM, means that the interest rate is locked in for 5 years. For the first month, the interest payment is only 1%, for the next 5 years following only the interest is due for the monthly payment. After the 5 year term, and for the remainder of the life of the mortgage, normally thirty years, the interest rate may change, and the payments will begin to include principal and interest.

These mortgages also come in 7/1 and 10/1 ARMs, but analysts really don't recommend extending the interest only option out that far, since too many things can change before the 7 or 10 years is up.

The 10/30 interest only mortgage works in the following way: you borrow money in the form of a 30 year mortgage, with a fixed interest rate. The first 10 years are interest only payments, with the full amount of the principal being amortized (interest payments included) over the last 20 years of the loan.

The 15/30 interest only mortgage works in the following way: you borrow money in the form of a 30 year mortgage, with a fixed interest rate. The first 15 years are interest only payments, with the full amount of the principal being amortized (interest payments included) over the last 15 years of the loan.

These mortgages are really appealing to the consumer with any sort of investment knowledge. If I were going to borrower with the interest only mortgage option, it would be one of these two, the 10 or 15 of 30.

Now what other myths can we find? There's the belief that the home mortgage income tax deduction is a substantial benefit to the taxpayer, and that 1% interest only loans are for the life of the loan! Ha! There's also the balloon note myth that proliferates the belief you can automatically refinance through your current lender when the note matures, or that adjustable rate mortgages are a better deal than fixed rate!

Another mythical idea is that the real estate market can't go bust. An exploding growth rate in the mortgage loan industry, and the continued surge in real estate prices, has put the interest only mortgages in a huge category all their own. Up from the first part of the century, the interest only mortgage loans are now garnering nearly one-fourth of the mortgage loan market. That kind of growth is almost frightening, to even the most experienced lender. Can you imagine the possibilities, say four to five years from now, when many of these loans come due to pay the interest and the principal; what happens if our economy isn't still a thriving bustling place?

The benefit of the interest only loan is that the consumer is eligible to buy much more house, than with a standard mortgage. That's great if you're certain in a given period of time, you'll be able to afford a higher mortgage payment. But is anything guaranteed and given in this day and time? What if you can't afford the payment when the interest only term expires?

We have only to look at the disastrous consequences of the crash of the stock market during the 1920s to appreciate where this may be leading us today. Many people had financed their homes with an interest only mortgage, and when the stock market crashed and there was no work, they lost everything, including their homes.

So, we not only promote mythical nursery rhymes, we promote mythical mortgages, too!

What about Taxes and Your Second Mortgage?

For the average consumer who has managed to acquire credit card debt, automobile loans, and various other small debts, is the second mortgage loan an answer for the consolidation of debt and a tax reduction? Quite often the answer to this question is yes. Second mortgages that have traditionally been used in areas of home improvement, funding college educations or business startups are now being considered as a means to eliminate or consolidate high-interest credit card debt and create a tax deduction at the same time.

For the average consumer, using second mortgage loan money to pay off credit card debt or to consolidate individual personal loans does not eliminate the possibility of a tax reduction; especially if that average consumer does not already own a second home. The only problem here seems to be that we're replacing credit card debt for second mortgage debt; what do we then do with the credit card we've paid off? The smart consumer cuts them up.

How does a second mortgage affect your tax liability at the end of the year? A lot of that will depend on your income levels, your medical expense, and your other interest deductions. Mortgage interest expense is deductible on the Schedule A "Itemized Deductions" form of your individual or personal tax return. The Schedule A, however is not a straight tax reduction tool. Tax reductions, or deductions, carried forward from the Schedule A are a percentage of your AGI, or your adjusted gross income. Your adjusted gross income is based upon your income less certain expenses and deductions from Schedule Cs, Schedule Es etc. etc. Can you now see where this might be a little complicated?

Let's throw something else into the mix: if you're an investor, especially in the real estate market, your mortgage interest may not be deductible, period. Mortgage interest on your first home and on your second home is a tax-deductible interest; if however, you happen to be an investor in the real estate market the ability to make it clear distinction between first and second homes versus investment property becomes much harder to prove. Is the home a second home with deductible mortgage interest expense, or is it an investment? Of course, for investors interest expense on a loan for investment purposes is fully tax deductible; no percentages to work with at all.

Now let's ask another question, if you decide to take out a second mortgage could you better invest your money? What a 401(k), an IRA, or an MSA be a better benefit when it comes tax time versus leading the money in your home as equity? This has been a question long debated by financial analysts, tax attorneys, and fairly tax proficient homeowners. How does the equity better serve the homeowner? As a savings account, which is really what the equity in your home turns out be, or as an investment tool that can be used to increase your retirement savings? There are other factors to be considered here: such as penalties for early withdrawal, risk ratio versus profitability ratios, and which programs reduce tax on a one-to-one ratio? Unless you already have some general knowledge of the tax system, it can be more expensive to determine tax savings than you would actually save.

As you can see there are many, many ways to affect your tax liability, your tax deductions, or affect a tax reduction; the correct answers are highly dependent upon the individual situation and the individual objectives. The only way to accurately determine the better benefit is to sit down with a financial advisor, your tax information, and evaluate your long-term objectives.

Does the average consumer ever take the time to accomplish this? As a general rule the answer is no. Most consumers never take the time to look past next month. Over the course of a stressful and busy work week retirement planning, tax deductions, and income producing benefits never cross the consumer's mind. For those individuals who truly anticipate and receive benefit from tax planning in relation to their mortgage interest, there are many more individuals who never even contemplate that there might be a savings. Maybe, we should just skip this question.

## Is Your Credit Working Against Your Mortgage Options?

Okay, now here's an interesting spin on an already risky product, let's give the bad credit crowd or the low credit score crowd, a chance to make an even worse decision, and finance a home they can't really afford and obviously will have trouble making on-time and dependable payments.

Sometimes, the products and situations that you see in the everyday world of researching these loans, is truly amazing and this is one of those classic situations. There are actually mortgage companies that advertise these interest only mortgage options for the consumer with the bad credit or slow credit record.

Now, what I'd like to know is why the mortgage company, in all good faith, would want to take a risk such as this. . It's risky financing mortgages for consumers with bad credit, even if you're financing with good solid collateral, and it is well within their means to pay. You take the consumer and the mortgage loan outside those realms of operation, and you're just simply a problem waiting to happen.

Maybe we should have an agency that's known as the "mortgage police" and when there's a clear and evident violation of just good sound common sense, a whistle blows; the computer locks up, and now enters the mortgage police. I truly believe the consumer, if not the mortgage company would be a lot better off, especially when the consumer has time to really absorb the basic facts about interest only mortgages, and the mess they can make of your finances; in the case of the bad credit consumer, the further mess they can make of your finances.

With all the government control that regulates the mortgage loan industry, and all the statistics that are published about the consumer with a bad or slow credit rating, who do you suppose thought it would be a good idea to give them an interest only mortgage, that they more than likely will have further trouble paying? You wonder if Alan Greenspan is aware of situations like this, and if he takes it into consideration when raising the prime lending rate? Do you suppose there's a number factor for the "really going to default on these mortgages" segment of his equation that determines our prime rate?

Then you have the individual who simply has a low credit score because he has too much credit on revolving charge cards, store cards, etc. How does this affect his or her ability to get a loan? Well, it doesn't necessarily prohibit their ability to secure funding, of course not. What it does accomplish, and this is where the mortgage and lending companies have decided to make a lot of profit, is up the qualifying interest rate. So, if you're credit score is low, you will pay a higher rate of interest. You can still obtain the mortgage, but it will be at several points higher than an individual with an excellent credit score.

As our country spirals ever further into debt, (for if you bother to read any of the headlines lately, you know that we are at the lowest point ever in home mortgage equity. Savings are at a negative balance, and we continue to spend, spend, spend) we do not attempt to encourage a more saving attitude in our consumer advocacy branches of government; we make it easier to spend more. With the passing and implementation of the new bankruptcy laws, I believe we will begin to see even more Americans in trouble with their finances, and offering them more credit, interest only options, and second mortgages does not serve them well.

Let's hope Alan uses more foresight and plain good business sense than our mortgage loan brokers, especially the ones that came up with this genius idea!

I truly hope you've enjoyed these articles on mortgage products, and that you have gained some insight as to the type of product you might need, what you might want, or in some way found the information helpful. As always, when you approach a major, life-changing decision such as purchasing a home, you should consult with a financial advisor and your local lending institution. There are so many products available today, that unless you have some knowledge of the lending process, and the type of home you’re purchasing, you will find that these articles will help to point you in a direction conducive to your situation.