"We listen, we educate, then we perform like no one else in the industry"

Preferred Financial NEWSLETTER

Since 1979
Preferred Financial.com
Mortgages Real Estate Insurance

April 2018

A financial publication for our clients and friends

How Did We Stack Up?

(as of April 19, 2018)

Freddie Nat'l Avg.—30 yr.
4.470% with .5 points + fees*
Preferred Financial—30 yr.
4.375% for No Points No Fees

Freddie Nat'l Avg.—15 yr.
3.940% with .4 points + fees
Preferred Financial— 15 yr.
3.950% for No Points No Fees

Freddie Nat'l Avg.—5/1 yr.
3.670% with .3 points + fees
Preferred Financial—5/1 yr.
3.750% No Points No Fees

*est. points + fees for a $300,000 loan would approximate $4,150.

News and Notable

◊ The Federal Reserve once again raised the Fed Funds Rate in Mar. '18. This makes 5 hikes since Dec. 2015. Rumor has it we can expect 2-3 more hikes this year.

◊ When the Fed Funds Rate is increased, the Prime rate will increase (generally 3% higher than Fed Funds) Interest rates on credit card obligations are likely to follow suit as well (can be as high as 20% or more)

Fed Funds Rate

2006 ——- 5.25%
2008 ——- 0.00%
2018 ——- 1.75%

◊ If a homeowner had mortgage debt of $1,000,000 prior to Dec. 15, 2017 and refinances only the current debt, the interest deductibility of on the $1,000,000 will be grandfathered in.

TAX REFORM ….. AND YOU

On December 22, 2017, the ***Tax Cuts and Jobs Act*** was signed into law by President Trump. This is the first major tax legislation in over three decades…...since the Tax Reform Act of 1986, and true to form, the impact on the average American is not easily discerned. Here's a brief summary of the items that are likely to affect average Americans:

◊ **Income Tax Rates**—Maintains 7 individual tax brackets with lower rates in most cases. The reductions in rates range from 0% to 4%—*More money in your pocket.*

◊ **Standard Deduction**—Increased across the board for: single filers (from $6,500 to $12,000), married couples (from $13,000 to $24,000)—*Should simplify the filing process for many Americans and provide some financial rewards.*

◊ **Mortgage Interest Deduction**—Allowable mortgage debt has been reduced from $1,000,000 to $750,000. Here are a few other items worth noting:

1. With few exceptions, the interest deductibility of Home Equity Lines of Credit (HELOCs) is eliminated—*Unless used for substantial home improvements.*
2. Second homes can still be counted as part of the $750,000 allowable debt.
3. In this scenario, the $250,000 decrease reduces deductions by over $10,000.

2017 $1,000,000 @ 4.375% deduction = $43,750
2018 $ 750,000 @ 4.375% deduction = $32,813

◊ **State and Local Tax Deduction (SALT)**—Previously uncapped, the new law caps the deduction for state and local taxes or sales taxes at $10,000, perhaps the most significant impact on you of all new guidelines and regulations. Let's look at it in chart form:

In 2017 the $21,500 deduction was fine. However, because of the cap for 2018, the deduction is now limited to only $10,000. *(likely to be costly to some).*

Tax Description	Deductible 2017	Deductible 2018*	Deductible 2018*
Real Estate Tax (owner occ.)	7,000	7,000	7,000
Personal Property Tax	1,000	1,000	1,000
State Income Tax*	12,000	12,000	n/a
State Sales Tax*	1,500	n/a	1,500
Total	21,500	20,000	9,500

* In 2018 your choice is to deduct either State Income Tax or State Sales Tax

MORTGAGE RATES PREDICTIVELY VACILLATE, CONTINUING TO PRESENT OPPORTUNITIES FOR MANY HOMEOWNERS

Volatility is part of the bargain when dealing with interest rates. Here's a snapshot since 2014. As of this publication, our "no cost" rate for our average 30 year loan is 4.375%. This is a rate that can save many of you hundreds, even thousands of dollars each year. If your rate is above this, do yourself a favor and give us a call to discuss your options. Definitely no telling where rates are headed, so don't delay. Now might be the time to act and improve your financial wellbeing. Never a bad idea.

"No Cost" Interest Rate

Year	Low	High
2014	3.875%	4.500%
2015	3.750%	4.250%
2016	3.375%	4.375%
2017	3.625%	4.375%
2018	3.875%	4.750%

APR = Note Rate (No Cost/No Fee Loan)

HAVE YOU RUN THE NUMBERS LATELY?

From a high of 4.375% for a 30 year fixed loan in 2016 *(which is still crazy low by any stretch of the imagination)*, can you believe we are once again flirting with interest rates in the 3's? Volatility can be a friend, as it is today. Let's be smart about this and not let a potential opportunity slip through the cracks. Below you will find a variety of our "no cost" rates as of October 2017. Additionally, you will find a section called **Some things to think about….** which is designed to get you thinking about how a decision to refinance today could impact your financial wellbeing tomorrow.

"No Cost" Rates As Of April 2018

Loan Program	> >	Int. Rate APR *	Loan Amount	> >	Loan Payment	Loan Amount	> >	Loan Payment
30 year	> >	4.375%	$300,000	> >	$1,497.85	$450,000	> >	$2,246.78
20 year	> >	4.125%	$300,000	> >	$1,837.77	$450,000	> >	$2,756.64
15 year	> >	3.990%	$300,000	> >	$2,217.56	$450,000	> >	$3,326.34
10 year	> >	3.750%	$300,000	> >	$3,001.84	$450,000	> >	$4,502.76
5/1 adj	> >	3.750%	$300,000	> >	$1,389.35	$450,000	> >	$2,084.02

*Interest Rate = APR when all non recurring closing costs are paid by Lender

Some things to think about…..

- ⇒ Is your current interest rate higher than 4.375%?
- ⇒ Want to pay off your mortgage in fewer years?
- ⇒ Are you considering a new home purchase?
- ⇒ How much longer will you live in your current home... Under 5 years? Under 10 years?
- ⇒ Have you considered purchasing a second home or an investment property?

- ⇒ Is your home in need of renovation?
- ⇒ Do you have a plan to pay off your revolving debt?
- ⇒ Is cash flow a top priority/necessity?
- ⇒ Do you have a HELOC ready to reset to a shorter term, fully amortized loan?
- ⇒ Is your mortgage compatible with your retirement plans?

If you find any of the current rates attractive and you have reasons to consider a refinance, please give us a call. There are way too many scenarios to highlight in this publication, but rest assured we will be happy to prepare a personalized analysis that will give you a variety of options for you to contemplate. Remembering of course, that at **Preferred Financial**…..…. *"We listen, we educate then we perform like no one else in the industry"*

TERRIFIC NEWS FROM THE FEDERAL HOUSING FINANCE AGENCY (FHFA)
HIGHER LOAN LIMITS & STUDENT LOAN BENEFITS

Year	One Unit	Our Comments
1980	93,750	"our 1st full year of business"
1990	187,450	"we introduced the "no cost" loans"
2018	453,100	"nice improvement over 38 yrs."

First—The FHFA increased maximum conforming loan limits for 2018. These are for mortgages on 1 to 4 unit properties purchased by Fannie Mae and Freddie Mac, the two largest "secondary market "entities, who purchase closed loans from mortgage lenders. This is a substantial increase with benefits to many (check out our chart). **Second**—Fannie Mae implemented a new policy empowering lenders to offer homeowners with loan-to-value ratios of 80% or less a "penalty-free cash-out refinance" to pay off their student loan debt. This is offered by Fannie Mae without its normal loan-level price adjustment of as much as 1.00%. ***Thanks, Fannie Mae!***

THINKING OF CASHING OUT? . . . . . MAKE IT A WISE DECISION!

*"Credit is the availability of funds to cover a current expense to be paid off in the immediate future—preferably the following month. Credit becomes Debt when it cannot be paid off in the immediate future…….**Credit is okay, Debt is not!**"*

As you know, we rarely advocate clients pulling equity out of their homes *("cashing out")* to pay off debt (other than property improvement-related debt, current or planned). However, we are realists and recognize that there are some situations that warrant our clients' consideration of "cashing out". Call it what you want: misfortune, bad timing, hardship or even a bit of fiscal irresponsibility. Irrespective of the cause, if debt exists now, now might be the best time to refinance it, especially when the likelihood of the debt being paid off in any other way is slim to none.

We've come up with three charts, putting a client's financial situation front and center for a more objective analysis. You'll find them below, with commentary, walking you through this wise decision-making process.

Part 1—Here we show 5 creditors: two home loan lenders (*1st mortgage & HELOC*), two revolving credit cards and one auto debt. Our objective is to determine the "*Blended Interest Rate"* of the total debt. This is a precise calculation that ties in directly with the refinance option given in Part 3. By the way, check out these pertinent items of interest:

1. *The latest Tax Reform and Job Act discussed on page 1 eliminated interest rate deductibility for most HELOC loans.*
2. *As a reminder, last Tax Reform Act of 1986 eliminated tax deductibility for credit card debt.*

	CREDITOR	CURRENT BALANCE	CURRENT RATE	* * *	LOAN RATIO	RATE FACTOR
1)	Wells Fargo	318,388	4.125%	* * *	70.367%	2.903%
2)	Century City Bank	78,000	6.250%	* * *	17.239%	1.077%
3)	VISA MBNA	21,000	18.900%	* * *	4.641%	0.877%
4)	MASTERCARD	15,500	14.500%	* * *	3.426%	0.497%
5)	AUTO CREDIT	19,582	8.990%	* * *	4.328%	0.389%
	TOTAL > > > >	452,470			Blended Interest Rate > >	4.857%

"Blended Interest Rate" represents a weighted average rate of all debt.
A very useful calculation in financial decision making.

Part 2—This chart illustrates what is too often a real-life situation, a family overburdened with punitively high interest rate debt coupled with minimum payments that feel like they will go on forever. *(Actually, in this example, some payments will go on forever because they are calculated at the minimum interest-only payment.)* A more realistic approach would be to factor in ten-year payoff payments for the credit card balances. Doing so would make the benefits of cashing out shown in Part 3 below even *more* beneficial.

	CREDITOR	CURRENT BALANCE	MONTHLY PAYMENT	* * *	COMMENTS
1)	Wells Fargo	318,388	1,599.34	* * *	*30 yr. fixed (28 yrs remaining)*
2)	Century City Bank	78,000	406.25	* * *	*6 yr. old heloc (int only-adj rate)*
3)	VISA MBNA	21,000	348.25	* * *	*revolving (int only + 1% of bal.)*
4)	MASTERCARD	15,500	187.29	* * *	*revolving (int only)*
5)	AUTO CREDIT	19,582	637.26	* * *	*60 mo. term (48 mos remaining)*
	TOTAL > > > >	452,470	3,178.39		* * * * * * * * * * * * * *

Beware of the monthly payment on your statement. It might be interest only.
That means it's a "forever payment".

Part 3—What makes this example so appealing is the differential between the "Blended Interest Rate" of 4.857% and the current "no cost "rate of 4.375%. Again, we're not advocating for "cashing out" per se, but if there's ever a right time for it, it would be when interest rates are at or near historical lows--*like right now.*

* * Your "no cost" Refinance Option * *				
LOAN BALANCE	* * * * * *	INTEREST RATE	> > > > >	MO. PAYMENT
452,470	* * * * * *	4.375%	> > > > >	$2,259.12
	Total Current Payments > > > > > > > >			3,178.39
	Total Monthly Savings > > > > > > > > >			$919.27

How significant is the "Total Monthly Savings"?
Maybe a cash can be a Wise Decision.

Give us a call for a personal analysis to find out if a cash out loan to pay off debt is a "Wise Decision For You".

(continued from page 1)

TAX REFORM ..... AND YOU

Income Tax Rates: The chart below (left) compares 2017 to 2018 tax rates, as well as the changes in the income categories, for each of the 7 tax brackets. The most significant change appears to be in the middle bracket—It saw a 4.00% decrease in tax rate along with an $81,650 increase in income. The chart below (right) notes the differences in taxes due between 2017 and 2018, using comparable taxable income for Married-Jointly income categories.

Income Tax Rate			Income Categories for Married-Jointly			
2017	2018	Lower	2017		2018	
10%	10%	0.0%	0	18,650	0	19,050
15%	12%	3.0%	18,650	75,900	19,050	77,400
25%	22%	3.0%	75,900	153,100	77,400	165,000
28%	24%	4.0%	153,100	233,350	165,000	315,000
33%	32%	1.0%	233,350	416,700	315,000	400,000
35%	35%	0.0%	416,700	470,700	400,000	600,000
39.6%	37%	2.6%	470700 +		600,000 +	

Taxable Income	Taxes Due 2017	2018	Diff.
50,000	5,627	5,619	8
100,000	16,478	13,879	2,599
170,000	34,485	29,379	5,106
250,000	57,718	48,579	9,139
350,000	90,718	75,379	15,339
450,000	124,383	108,879	15,504
650,000	202,631	179,879	22,752

The following chart will help you calculate taxes owed on a variety of taxable income amounts for Federal purposes. As in the charts above, this chart depicts the tax situation for a Married-Jointly filing status. (The other 3 statuses: Single, Married/Filing

2018 Tax Rates, Income Brackets and Taxes Owed calculations for Married-Jointly

Tax Rate	Taxable Income Bracket	Taxes Owed
10%	0 to 19,050	10% of taxable income
12%	19,050 to 77,400	$1,905 plus 12% of amount over $19,050
22%	77,400 to 165,000	$8,907 plus 22% of amounts over $77,400
24%	165,000 to 315,000	$28,179 plus 24% of amounts over $165,000
32%	315,000 to 400,000	$64,179 plus 32% of amounts over $315,000
35%	400,000 to 600,000	$91,371 plus 35% of amounts over $400,000
37%	600,000 +	$161,379 plus 37% of amounts over $600,000

separately and Head of Household.) Please feel free to reach out to us if you have questions regarding anything related to the material covered here. In no way are we claiming to be experts in the tax and accounting arena, but we might be able to direct you to a source that can provide you with an answer. We will always advise you to seek tax advice from a tax professional.

PREFERRED FINANCIAL IS LOOKING OUT FOR YOU

"A little bit of this and that"

- ◊ Our charitable donations for 2017 exceeded $55,000. Our total now is over $1,160,000 since 2000. Last year, we invited many of our clients to offer charity suggestions. They received personal acknowledgments from those organizations.........Please keep it up. Much appreciated.
- ◊ Last year was one of our best referral years yet. You know what we say—"Our goal remains to have your referrals ultimately thank *you* for introducing them to us".. It's a simple concept on which a very, very successful company continues to grow...We have *so much* to offer your referrals.
- ◊ One of our best kept secrets has been our real estate sales activities. Over the past few years, we have accommodated many of our clients, offering both listing and purchasing services. Activity has continued to grow. Now we have eight in-house Realtors that collectively have closed nearly 200 deals...Like everything we do, we are very competitive.
- ◊ We deal with some of the best insurance carriers in the country—Safeco, Nationwide, Travelers & Progressive. March was one of our best month's ever. Give us a call, we're happy to assist in any way, even if it is only to advise.