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

Preferred Financial NEWSLETTER

PREFERRED FINANCIAL GROUP
Since 1979
MORTGAGE - REAL ESTATE - INSURANCE

July 2021

A financial publication for our clients and friends

How Did We Stack Up?

(as of July 1, 2021)

Freddie Nat'l Avg.—30 yr.
2.930% with .7 points + fees*
Preferred Financial—30 yr.
2.875% for No Points No Fees

Freddie Nat'l Avg.—15 yr.
2.240% with .6 points + fees
Preferred Financial— 15 yr.
2.250% for No Points No Fees

Freddie Nat'l Avg.—5/1 yr.
2.520% with .3 points + fees
Preferred Financial—7/6 yr.
2.375% No Points No Fees

*est. points + fees for a $400,000 loan would approximate $4,150.

News and Notable

- Preferred Financial knocked it out of the park in 2020, funding nearly $900,000,000 in loans...now approaching the $14,000,000,000 mark in total loan volume since introducing the "no cost" loan to the industry in 1990.
- Many unhappy homeowners with HELOC's at or near the end of their 10 year draw period are being told their monthly payments could increase as much as 200%.
- The Federal Reserve is planning to stay the course in keeping interest rates low—signaling they won't raise interest rates until 2023.
- The current national debt recently surpassed $28 trillion. Annual interest on the debt is $378 billion—an increase of only a quarter percent (.25%) adds $19.5 billion

IS THERE SOME BUBBLY IN OUR FUTURE? HERE ARE SOME COMPARISONS AND ANALYSIS

Twenty years ago, the Median Sales Price (MSP) for a single family home in California was $316,130. By 2007, that number soared to $560,270, causing many to fear we were in a bubble. As it turned out, they were right. The *Financial Crisis* hit causing the bubble to burst . In less than 3 years, we saw the MSP plummet by nearly 50% to $274,960. Since then with massive federal stimulus coupled with a very accommodative Fed, we watched the MSP hit a historical high. As of April 2021 the MSP reached $813,980...which reflects a 34.23% increase in the last year alone (refer to chart for values in your county). So what should we expect? Perhaps the most compelling reason to think a correction is lurking is the affordability issue. Keep in mind that as prices rise, qualifying naturally becomes more difficult, which is magnified by the potential of interest rates increasing. **Here's an example**: A monthly mortgage payment for a $500,000 loan at today's rate of 2.875% is $2,074. At 4.375% that payment increases by $422 to $2,496. That's a 20% increase. Might that mean values would drop by 20%? History reminds us drops like that do occur. There are many reasons to consider a refinance in the future. If you might, best to consider your options sooner than later—while values remain at all-time highs.

Later can be costly!

California Median Sales Price (year to year)

State/County	Apr-21	Apr-20	% Change
CA Single Family	$ 813,980	$ 606,410	34.23%
CA Condo/TH	$ 570,000	$ 488,000	16.80%
L.A. Metro Area	$ 725,000	$ 550,000	31.82%
S.F. Bay Area	$ 1,328,440	$ 980,000	35.56%
By Select Bay Area Counties			
Alameda	$ 1,300,000	$ 1,030,000	26.21%
Contra-Costa	$ 990,000	$ 710,000	39.44%
Marin	$ 1,610,000	$ 1,365,000	17.95%
San Francisco	$ 1,800,000	$ 1,699,500	5.91%
San Mateo	$ 2,001,000	$ 1,640,000	22.01%
Santa Clara	$ 1,650,000	$ 1,388,890	18.80%

California Association of Realtors

VALUES UP, LOAN LIMITS UP, INTEREST RATES DOWN. A PERFECT RECIPE FOR MANY? MAYBE!

Interest rates continue to be volatile, ranging between 2.625% — 3.375% during the past 12 months. So now with rates near all time lows, values skyrocketing, and conforming loan limits at **$548,250+** (refer to chart), the time has never been better to consider a refinance. The next few pages will illustrate how you might benefit from this unique situation. If you have any questions about potential benefits, give us a call and let us discuss them with you.

Fannie Mae & Freddie Mac Loan Limits

Conforming Units	Conforming 2021	High Balance* Units	High Balance* 2021
1	548,250	1	822,375
2	702,000	2	1,053,000
3	848,500	3	1,272,750
4	1,054,500	4	1,581,750

***amount determined by county**

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 flirting with all time lows again with interest rates in the 2's? Volatility can be a friend, as it is today. Let's be smart about this and not let a potential opportunity slip away. Below you will find a variety of our "no cost" rates as of July 2021. Additionally, below 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 July 2021

Loan Program	> >	Int. Rate APR *	Loan Amount	> >	Loan Payment	Loan Amount	> >	Loan Payment
30 year	> >	2.875%	$400,000	> >	$1,659.57	$500,000	> >	$2,074.46
20 year	> >	2.625%	$400,000	> >	$2,144.05	$500,000	> >	$2,680.07
15 year	> >	2.250%	$400,000	> >	$2,620.34	$500,000	> >	$3,275.42
10 year	> >	2.125%	$400,000	> >	$3,702.97	$500,000	> >	$4,628.72
7/6 adj	> >	2.375%	$400,000	> >	$1,554.61	$500,000	> >	$1,943.26

**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 3.250%?
- ⇒ 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 with a variety of options for your consideration………. ***"Just give us a call. "***

COULD IT BE WISE TO SWITCH FROM A 30 YR. LOAN TO A 7/6 ADJUSTABLE?
IT SHOULD BE A "NO BRAINER" ONCE YOU ANALYZE THE NUMBERS

Here are the most significant questions to consider in your analysis:

(1) Is the current yield curve steep? *(the difference in rates between 30 yr. & 7 yr.)* ***Answer: Yes***
(2) How long do you expect to live in your home? *If less than 7 years* ***Answer: Yes***
(3) Can you refinance with a "no cost" loan? *(At Preferred Financial)* ***Answer: Yes***
(4) After analyzing the numbers does a switch to a 7 yr. loan make sense? ***Answer: Yes***

Reviewing the chart, the 7 year has less in pmts. and more in principal paydown. Combined, the 7 yr. benefits total **> > $19,951.05 < <**. That's nearly $3,000 a year.

Analysis / Comparison after 7 years (84 months) - - - - Loan Amount of $400,000

Term	Rate	Mo. Pmt.	Total Pmts.	Interest	Principal	Balance
30 Year	3.000%	1,686.42	141,659.28	77,587.88	64,071.40	335,928.60
7 Year	2.250%	1,528.98	128,434.32	57,636.83	70,797.49	329,202.51
Difference	**0.750%**	**157.44**	**13,224.96**	**19,951.05**	**-6,726.09**	**6,726.09**

Could it be wise to switch your loan from a 30 yr. to a 7/6 yr. adj.? ***"Let us run the numbers for you!"***

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!**"*

For those of you who know us well, we rarely advocate clients pulling equity out of their home *("cashing out")* to pay off debt (other than property improvement related debt, current or planned). However, we are realists and recognize there are some situations that warrant our client's consideration of "cashing out". Call it what you want: misfortune, untimeliness, hardship or even a bit of fiscal irresponsibility. Irrespective of the cause, if it exists now, it might be time to deal with it, especially when there is little or no likelihood that this debt can be paid off in any other way. To assist in the decision-making process we've come up with three charts putting a client's financial situation front and center for a more objective analysis. Below, find our charts with commentary to further assist in the wise decision-making process.

Part 1—In our example, we show 5 creditors two of which are home loans, two are revolving credit cards and the last is an auto debt. The objective here is to determine the "*Blended Interest Rate" of all debt. This is a precise calculation that ties in directly with the option given in Part 3. Here are a couple of things worth bringing to your attention:*

1. *The Tax Reform & Job Act of 2017 eliminated interest rate deductibility for 2nd HELOC loans.*
2. *Be reminded: The 1986 Tax Reform Act eliminated interest deductibility for credit card debt.*

Part 1

	CREDITOR	CURRENT BALANCE	CURRENT RATE	* * * * * *	LOAN RATIO	RATE FACTOR
1)	Wells Fargo	316,568	3.250%	* * *	68.366%	2.222%
2)	Century City Bank	85,000	6.250%	* * *	18.357%	1.147%
3)	VISA MBNA	25,400	18.900%	* * *	5.485%	1.037%
4)	MASTERCARD	16,500	14.500%	* * *	3.563%	0.517%
5)	AUTO CREDIT	19,582	7.500%	* * *	4.229%	0.317%
	TOTAL > > > >	463,050	Blended Interest Rate > >			4.406%

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

Part 2—We put a prospective spin on what's 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 payments **will go on forever** because they are calculated at the minimum interest-only payment).* A more realistic approach would be to consider a ten-year payoff for the credit card balances.—making the benefits even more substantial than the numbers shown in Part 3 below.

Part 2

	CREDITOR	CURRENT BALANCE	MONTHLY PAYMENT	* * * * * *	COMMENTS
1)	Wells Fargo	316,568	1,436.18	* * *	*30 yr. fixed (28 yrs remaining)*
2)	Century City Bank	85,000	442.71	* * *	*6 yr. old heloc (int only-adj rate)*
3)	VISA MBNA	25,400	400.05	* * *	*revolving (int only)*
4)	MASTERCARD	16,500	199.38	* * *	*revolving (int only)*
5)	AUTO CREDIT	19,582	473.47	* * *	*60 mo. term (48 mos remaining)*
	TOTAL > > > >	463,050	2,951.79	* * * * * * * * * * * * * *	

Beware of the monthly payment on your statement. It might be interest only.

Part 3—What makes this example even more appealing is the differential between the "Blended Interest Rate" of 4.406% and the current "no cost "rate of 2.99%. Again, we're not advocates of "cashing out" but if there is ever a right time to consider it, it would be when interest rates are at or near historical lows. **Like right now!**

Part 3

*** * Your "no cost" Refinance Option * ***

LOAN BALANCE	* * * * * *	INTEREST RATE	> > > > >	MO. PAYMENT
463,050	* * * * * *	2.990%	> > > > >	$1,949.74
	Total Current Payments > > > > > > > > >			2,951.79
	Total Monthly Savings > > > > > > > > >			$1,002.05

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

INDUSTRY UPDATES

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Since 1979
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FINANCIAL GROUP
MORTGAGE - REAL ESTATE - INSURANCE

NMLS # 183821
www.nmlsconsumeraccess.org

"RefiNow" — New Loan program by Fannie Mae & Freddie Mac

Under the guidance of FHFA Fannie Mae & Freddie Mac recently introduced the Refi-Now refinance option. It offers expanded eligibility to benefit borrowers at or below 80% of the Area Median Income (AMI). Below are a few of the key guidelines and benefits of the RefiNow program:

- Old loan must be serviced by Fannie or Freddie. New loan must have a fixed rate, lower borrower's interest rate by minimum .50%, reduce monthly payment by at least $50, and be a limited cash-out refinance which allows up to $5,000 of closing costs to be added to the loan. Additionally, the .50 basis point up-front adverse market fee "normally charged" by Fannie Mae & Freddie Mac is waived.
- To qualify, the property must be a 1-unit principal residence and the loan amount cannot exceed the conforming limit of $548,250. The borrower must satisfy the 80% AMI requirement, not have missed a mortgage payment in the past 6 months and no more than one missed payment in the past 12 months, have a debt-to-income ratio of 65% or less, a loan-to-value ratio up to 97% and a minimum FICO score of 620.

These are among the most significant items related to the RefiNow program. For a more complete understanding, you can visit the Fannie Mae or Freddie Mac website. Or, you can give us a call…………………....Remembering of course at Preferred Financial,

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

FREQUENTLY ASKED QUESTIONS

◊ Can Preferred Financial help me buy or sell a residential home?

Answer: Absolutely! All of our agents are licensed by the California Bureau of Real Estate to conduct real estate transactions. Several of our more-seasoned agents are Realtors and thus can assist you in even more ways.

◊ Is a Federal Housing Administration (FHA) loan still a good idea?

Answer: All things being equal, if you qualify for a conventional loan, you will be well-advised to accept that loan over an FHA loan. The primary factor here is the mandatory mortgage insurance required by the FHA . However, all things are usually not equal. If a borrower has issues with credit, high debt-to-income ratios, limited down payment funds (purchase) or minimal equity (refinance), pursuing an FHA loan may be the best course of action.

◊ Should my mortgage play into my personal financial planning?

Answer: Definitely! To be clear, the two most important variables in financial planning are income and assets. But don't overlook liabilities like your mortgage, a potential drain on retirement income. The closer you get to retirement, the more important your mortgage becomes. For some, a payoff objective is optimal and for others, a reduced monthly payment balanced against retirement income can be perfect. We can help you focus on your future today. Take advantage of the opportunity by giving us a call.

◊ I'm adding solar to my home—My neighbor suggested a **HERO** loan. Do I have to be a veteran to qualify?

Answer: No, you do not have to be a veteran to get a **HERO** loan. Actually, we have had several borrowers referred to us who have a **HERO** loan. Each have explained the loan in different ways. Here's what we've gathered:

⇒ It's often referred to as a **HERO** loan. The proper acronym is **PACE** (**P**roperty **A**ssessed **C**lean **E**nergy).

⇒ The program has zero to do with the Veterans Administration or veterans who have served in the US military.

⇒ They are recorded liens and attached to your normal property tax bill. You make payments when you pay your taxes.

⇒ Up to 100% financing, products attached to property and reduce on-site electric, gas or water consumption are eligible.

⇒ Borrower is unable to refinance their mortgage until you pay off your **PACE** loan in full. Or you can add your **PACE** loan balance to your current mortgage through a rate /term refinance. Strongly suggested, since **PACE** rates are high.

⇒ Contractors installing the products "seem" to charge substantially more than a retail price for product and installation.

Please visit our new website at www.preferredfinancial.com
for information, charts, calculators and much more.