"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

June 2022

A financial publication for our clients and friends

How Did We Stack Up?

(as of May 19, 2022)

Freddie Nat'l Avg.—30 yr.
5.250% with .9 points + fees*

Preferred Financial—30 yr.
4.920% for No Points No Fees

Freddie Nat'l Avg.—15 yr.
4.430% with .9 points + fees*

Preferred Financial— 15 yr.
4.125% for No Points No Fees

Freddie Nat'l Avg.—5/1 yr.
4.080% with .2 points + fees

Preferred Financial—5/6 yr.
Call for current pricing due to volatility

*est. points + fees for a $500,000 loan would approximate $7,000.

News and Notable

- Preferred Financial knocked it out of the park in 2021, funding nearly $750,000,000 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.

  Thank you,
  Preferred Clients!

- 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 100%.

- The Federal Reserve has taken an aggressive stance in their efforts to fight inflation. This involves increases to the Fed Funds Rate. Once containment is evident, we can expect the Fed's aggressiveness to ease and rates to reverse course. This could happen sooner than we think!

THANKFUL AND GRATEFUL …FROM US TO YOU!

On behalf of our nearly 50 staff and agents making up our Preferred Financial Family, we want to take a brief moment to reflect. The past two years have presented challenges for all. The biggest, of course, was the Covid-19 pandemic. With amazing unity and support from all, the pandemic is now a thing of the past. Challenges oftentimes present opportunities . In this case, the pandemic caused unprecedented economic chaos—requiring our government to intervene by lowering interest rates to revive the economy. We saw rates at historic lows creating financial opportunities for you. During this period, we originated nearly 3,700 loans totaling over one and a half billion dollars. Of those numbers, over 1/3 were new clients—mentioned because our new clients come from your referrals. You may have heard us say, *"We appreciate your continued efforts to refer us to family, friends, co-workers and acquaintances that might benefit from our services. Our goal remains to have your referrals thank you for introducing them to us."* We hope you have been and will continue to be overwhelmed with gratitude.

Here's one more from us. ***Thank you*** and enjoy the information that follows.

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

VALUES UP: The Median Sales Price (MSP) for a single family home in California in 2000 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, a pandemic, coupled with perhaps a too accommodative Fed, we watched the MSP hit a historical high. As of March 2022 the MSP reached $849,080. This reflects a nearly 12% 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 recent increases in interest rates . 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.

California Median Sales Price (year to year)

State/County	Mar-22	Mar-21	% Change
CA Single Family	$ 849,080	$ 758,990	11.87%
CA Condo/TH	$ 661,000	$ 552,500	19.64%
L.A. Metro Area	$ 770,000	$ 680,000	13.24%
S.F. Bay Area	$ 1,444,720	$ 1,225,000	17.94%
By Select Bay Area Counties			
Alameda	$ 1,430,000	$ 1,163,000	22.96%
Contra-Costa	$ 965,900	$ 920,000	4.99%
Marin	$ 1,737,500	$ 1,627,500	6.76%
San Francisco	$ 2,060,000	$ 1,755,000	17.38%
San Mateo	$ 2,280,000	$ 1,985,000	14.86%
Santa Clara	$ 1,950,000	$ 1,600,000	21.88%
Solano	$ 604,000	$ 549,000	10.02%
Sonoma	$ 833,750	$ 765,000	8.99%

California Association of Realtors

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

LOAN LIMITS UP: Federal Housing Finance Agency (FHFA) published it's third quarter 2021 FHFA House Price Index Report. It measured housing values over the previous four quarters. The results: US home values on average increased by 18.05%. This percentage is used to determine the baseline conforming loan limits for 2022. Here's an example of how significant the increase was from 2021 to 2022. The conforming limit for a single family home in 2021 was $548,250. In 2022, the limit was increased by $98,950 taking it to an all time high of $647,200. Many of our clients have already taken advantage of this increase in loan limits. Refer to chart for specifics on high balance loans as well as 2, 3 & 4 unit properties.

Fannie Mae & Freddie Mac Loan Limits

Conforming		High Balance*	
Units	2022	Units	2022
1	647,200	1	970,800
2	828,700	2	1,243,050
3	1,001,650	3	1,502,475
4	1,244,850	4	1,867,275

*amount determined by county

INTEREST RATES UP: Interest rates continued their volatility during the past 12 months, but were in a very narrow range from June to November at which time we began to hear chatter from the Federal Reserve that a rate hike was suddenly in play. This was due in part to inflation pressure stemming from an overheating economy. Oftentimes the Fed's chatter, i.e. *moral suasion,* relies on verbal techniques rather than actually increasing interest rates to change people's behavior. This continued with the Fed hinting the possibility of several interest rate later this year. On May 4th, the Fed increased the Fed Funds Rate by one-half percent—further indicating future increases are quite likely. So what can we expect going forward? First, it helps to understand how the Fed regulates our economy.

Freddie Mac--30 yr. & 15yr. Fixed Rate and 5/1 Adjustable *Rate* Mortgages
"A Year At A Glance"

Loan Type	Jun' 21	Dec '21	Jan '22	Feb '22	Mar '22	Apr '22	May '22
30 Yr.	2.99%	3.11%	3.22%	3.55%	3.76%	4.72%	5.27%
15 Yr.	2.27%	2.39%	2.43%	2.77%	3.01%	3.91%	4.52%
5/1 ARM	2.64%	2.49%	2.41%	2.71%	2.91%	3.56%	3.96%

Among other things, the Fed is tasked with maintaining a healthy economy— *"neither too hot nor too cold, but just right".* In a perfect Goldilocks world, a "just right" economy is one which maintains an annual inflation rate of two–percent. Above that is too hot: *(consumers spending too much on goods and services pressuring prices to increase—inflationary).* Below that is too slow: *(consumers spending too little on goods and services pressuring prices to decrease—deflationary).* Currently, our inflation rate is north of 8.00%, so the Fed began increasing interest rates, making the cost of borrowing/credit more expensive. Example: The consumer who was thinking about buying a refrigerator will be paying more for that item as rates increase—to the point where the increased cost of borrowing is so high, they opt out of the purchase, hence slowing the economy. The opposite of this strategy works for stimulating a *"too cold"* economy.

SO WHAT CAN WE EXPECT GOING FORWARD?

We're reminded that a linear relationship does not exist between the Fed Funds Rate and mortgage rates. Since around 2000, the Fed Funds Rate and the average 30-year fixed mortgage rate have differed by as little as 0.50% and as much as 5.00%...a telltale sign that the mortgage market tends to overreact to initial rate hike actions by the Fed. The objective of these hikes is to slow the economy. This does not happen immediately. It takes time to measure inflationary trends. They're best measured by the Consumer Price (CPI) and the Producer Price (PPI) Indices which are published monthly. This lag time is what leads to overreaction in mortgage rates. The Fed's plan is to take the Fed Funds Rate from 1.00% to 3.00%-3.50% by year-end. If the Fed is successful in returning the economy to a "just right" status and it's accomplished sooner than later, we can expect mortgage rates to react accordingly. How so? With the Fed Funds as 2.50% and a spread of 1.50%, we could see a mortgage rate of 3.99%.

We know mortgage rates predictively vacillate in any economic environment, and opportunities and situations can surface when least expected. We encourage you to let us know what's on your mind. With values up, loan limits up and the possibility of a short-term interest rate correction, who knows? This may create "a perfect receipt for *you*.

"If we can make something happen for you, we will."

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

Part 1

	CREDITOR	CURRENT BALANCE	CURRENT RATE	* * *	LOAN RATIO	RATE FACTOR
1)	Rocket Mortgage	321,250	3.990%	* * *	68.916%	2.750%
2)	Wells Fargo Bank	87,000	6.950%	* * *	18.664%	1.297%
3)	VISA MBNA	19,850	17.900%	* * *	4.258%	0.762%
4)	MASTERCARD	15,950	14.500%	* * *	3.422%	0.496%
5)	AUTO CREDIT	22,100	6.990%	* * *	4.741%	0.331%
	TOTAL > > > >	466,150	Blended Interest Rate > >			4.809%

"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)	Rocket Mortgage	321,250	1,621.25	* * *	30 yr fixed (27 yrs. remaining)
2)	Wells Fargo Bank	87,000	503.88	* * *	7 yr old heloc, int. only adj-rate
3)	VISA MBNA	19,850	296.09	* * *	revolving (int. only pmt.)
4)	MASTERCARD	15,950	192.73	* * *	revolving (int. only pmt.)
5)	AUTO CREDIT	22,100	593.89	* * *	60 mo. term, 42 mos. remaining
	TOTAL > > > >	466,150	3,207.84		* * * * * * * * * * * * * *

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

Part 3—In cash out decision making, two of the most important variables to consider are blended interest rate and combined monthly payment as reflected above in **Part 1** & **Part 2**. Here are a few others things to think about: Is your home in need of renovation? Is cash flow a top priority or necessity? Is your HELOC converting to a fully amortized payment soon? Is your mortgage compatible with your retirement plans? Whatever your considerations are, they're not complete until you add interest rates to your analysis, as evidenced by he range of rates ***(2.99% - 5.27%)*** reflected in the Freddie Mac **"A Year At A Glance"** chart on page 2. Let's look at an analysis using Freddie Mac 12 month low/high rates, *Current Balance* of $466,150 and *Monthly Payment* of $3,207.84 from Part 2. Even with the wide range of rates, benefits are seen in both interest rate scenarios. We know mortgage rates predictively vacillate in any economic environment, and opportunities and situations can surface when least expected. We encourage you to let us know what's on your mind. With values up, loan limits up and the possibility of a short-term interest rate correction……………..Who knows?

A Cash Flow Analysis*

Int. Rate*	Mo. Pmt.	Curr. Pmt.	Savings
2.990%	1,962.79	3,207.84	$1,245.05
5.270%	2,579.88	3,207.84	$627.96

Give us a call and let us individualize your situation to determine if a cash out to pay off debt is a "Wise Decision For You".

INDUSTRY UPDATES

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The Return of the HELOC—Friend or Foe?

Home Equity Lines of Credit (HELOC) have been around for decades. While similar to conventional home loans, a HELOC has some distinguishing and sometimes dangerous characteristics. Here are a few of those similarities and characteristics:

- ⇒ Requires title & escrow services and uses your home as collateral *(like a 2nd mortg.)*.
- ⇒ Income, credit and appraisal are vital in securing the best rate and lowest fees.
- ⇒ Interest is generally tax deductible if the loan is used for home improvements.
- ⇒ As a line of credit, borrower can use any amount up to the approved maximum.
- ⇒ Adjustable Interest Rates—Determined by adding Federal Funds Rate ***(variable & dangerous)*** + Prime Rate margin ***(fixed)*** + Lender margin ***(variable & dangerous)***.
- ⇒ Similar to a credit card—revolving balance with minimum monthly payments.
- ⇒ 30 year term: 10 yrs. Interest Only pmts, then 20 yrs. fully amortized pmts.
- ⇒ Too often HELOC s are used like a credit card—with no plan to payoff ***(dangerous)***.

The two most dangerous of these characteristics are 1. variable interest rate with a typical ceiling of 18%, and 2. the HELOC is used as a gigantic credit card with balances remaining at the end of the 10 yr. draw period. Let's assume the following:

- ◊ Balance at the end of 10 yrs. $150,000
- ◊ Interest only payments *at:* 7.00%—$ 875.00 *at:* 10.00%—$1,250.00
- ◊ 20 yr. fully amortized payments *at:* 7.00%—$1,162.95 *at:* 10.00%—$1,447.53

At the ceiling rate of 18%, the fully amortized payment would be **$2,314.96** — **"Foe?"**

How to Make your HELOC your Friend

HELOCs also have some *Friendly* characteristics! As long as you know the pros and cons, you can use these loan products to your benefit as great financing tools. Below are a couple of those characteristics that can make your HELOC your Friend.

- ⇒ Home remodeling: If not needing all of the funds at once, you can draw from your HELOC as your remodeling progresses and funds are needed. Long term plan would be to consolidate into one fixed mortgage or payoff in full prior to it fully amortizing.
- ⇒ Emergency Assets: Access funds quickly and at a low interest rate, but plan on paying back in a short period of time.

FREQUENTLY ASKED QUESTIONS

◊ How long has Preferred Financial been in business?

Answer: Incorporating in 1979, we're about to enter our 44th year of business. Here are a few things we're very proud of:

- ♦ *We live our Mission Statement: "We listen, we educate, then we perform like no one else in the industry"*
- ♦ *We've never hired an agent who has worked for another company. They learn the business from us.*
- ♦ *Our business is generated by our clients through their referrals of family, friends, co-workers and acquaintances who might benefit from our services. Our goal has always been to have your referrals thank you for introducing them to us. Thanks to you, our client base is 10,000+, and growing!*
- ♦ *We introduced the "no cost" refinance to the industry in 1990.(We kept it our secret for as long as possible)*

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

Answer: Absolutely! All of our agents are licensed by the California Dept. of Real Estate to conduct real estate transactions. Several of our more seasoned agents are Realtors and Brokers and thus can assist you in even more ways. If you think we do a great job for you in servicing your mortgages needs, we'll match that in servicing your real estate needs. Call any of us for advice or to find out how we can save you money.

◊ When should my children or grandchildren begin to create a 'Purchase Plan'?

Answer: We have many 3rd generation clients at Preferred Financial! It is never too early to learn how mortgages work, and what you should be doing now to get into the best position possible for a future home purchase. We will help your kids or grandkids create a 1, 3, or 5 year Purchase Plan with our 'First Time Homebuyer Guide'. Have them reach out via phone or email. We love helping families thrive!