FREE YOURSELF FROM FINANCIAL STRESS, SECURE YOUR FINANCIAL FUTURE

THE ROLE OF THE LOAN AGENT AS A FINANCIAL DOCTOR

Let us assume that you were feeling bad and thought you might be ill and placed a call to your doctor. You would most likely describe your conditions and ask the doctor for advice as to how to treat your condition, right? Would the doctor simply prescribe medication without seeing you? As a matter of fact, in most cases wouldn't the doctor be guilty of medical malpractice if he/she did not examine you? This is why the doctor wants to meet with you, so that the treatment he/she prescribes will be a correct method of treatment. We at California Star Properties, Inc. dba California Star Financial Services believe that when a loan agent sells a loan without completing the loan application, reviewing the financial history, credit history (report) and appraisal that the loan agent would be guilty of financial malpractice as well.

To fully understand the power of this information, let us state that when looking for a loan almost all financial planners and consumers spend the day shopping for the lowest rates. People will spend hours shopping for rates to find 1/8th of one percent difference in lenders loan programs. They are trying to save pennies while losing thousands of dollars.

To give you an example: let us look at a loan amount of $300,000 (30 year term) and compare a 7.5% vs. 7.375% fixed rate loan. At 7.5% the monthly payment would be $2,097.64 and at 7.375% the monthly payment would be $2,072.03. The difference would be $25.61 per month! There are 360 months, so the overall projected savings is $9,219.60 (after 30 years). There are several issues to consider. Do you really believe that you will keep this house for 30 years? Next, will you keep the same home loan that you are shopping for until it is paid off (30 years)? As you can quickly see (interest rates are not the real issue. Why should we be pre-occupied with common stones, when the mind is capable of uncovering diamonds? The answer is that people in our business (real estate lending) want the avenue of least resistance and frequently just want to take orders. The customer wants a fixed rate loan at 7.375% and the loan agent says OK. The loan agent is paid the same commission for selling the "Solid Gold Equity Builder Loan" without having to spend the time to counsel the client.

THE DIALOG BETWEEN THE CLIENTS AND MYSELF

Here is an example of a real loan client. I am currently working with a family to restructure their entire financial portfolio. The clients were concerned that:
• They wanted a low interest rate on a fixed rate loan.
• They did not want a pre-payment penalty.
• They were told not to pay any points.
• They were searching for a loan amount of $214,500. I went through a series of questions and found that the most important concern was that they didn't want to pay any points and closing cost, which normally total about 3.5 to 4% of the gross loan amount.

I have listened to their concerns and now I start asking questions. The results are as follows:
• They earn about $13,432 per month in combined income.
• They are 36 and 37 years old.
• They would like to achieve financial independence by age 65.
• They owned no other real estate.
• They had almost no debt.
• They have invested about $200,000 in 401(k)s so far.
• They own a property that is worth about $413,000.00.

I found that they fit right in the group of people (87% of Americans) that have not yet funded their retirement. For them to live the same life style as today they will need to have about $3,250,000 in the form of liquid assets that will pay them about 5% a year in gross earnings. So when they called me up and asked "what are your lowest, best fixed rate loans priced at today?" They informed me that they had already been quoted a rate of 6.875% and that they were shopping for a loan amount of $214,500. I said that I have access to the lowest fixed rate loans available. However, I said, "that may not be the loan that you would want if you were better informed." I asked if "they could be open to other possibilities?" They agreed to meet with me.

THE REAL PROBLEM IS THAT THE CUSTOMER HAS NOT BEEN PREPARED TO RETIRE IN DIGNITY. THE CULPRIT IS "EQUITY ROT".

Upon meeting with these clients we discussed what "equity rot" is. "Equity rot" means that the clients are forgoing potential future income by leaving the equity in their home rather than investing those same dollars at a higher rate. The equity in their home is about 52% of the current value of the home. Now, if the cost of the interest rate to borrow the equity is 7.375% then the true rate that your equity is saving you is also 7.375%. If you consider that this is before taxes then the true rate you are saving is about 4% on your equity. If you were to borrow the equity out of your home and rental properties, use it to buy more real estate, then take the maximum difference and invest it into fully funding your 401(k) and IRA investments then you will be buying performing assets that can grow your net worth. Most people that we interview have no idea how powerful the money invested in the 401(k) and IRA really is. First, these funds are tax deferred. The next issue is that these funds typically will earn at a rate of 10% on average over 30 years. What is even more important for you to comprehend is that at a rate of 10% tax deferred your money will double ever 7 years! Remember that both the husband and wife can have a 401(k). You can invest $10,000 a year each. Hence one year invested $20,000 will become $40,000 in just 7 years at a rate of 10%. Then lets look at a schedule of the doubling every 7 years:
$20,000 invested
$40,000 in seven years
$80,000 in fourteen years
$160,000 in twenty one years
$320,000 in twenty eight years
$640,000 in thirty-five years
$1,280,000 in forty-two years

This is the reason that you want to start saving through your 401K right now. The economic goal in life should be to see how many 7-year periods that you could have working for you. The most expensive dollar that you have is the one that you didn't invest today.
My goal in working with my clients is to sell them their owner occupied home and then about three years later is to refinance the same. If we can pull out the equity and invest it in a rental home we will accomplish several goals. First, we will have two properties appreciating in value. These are both long-term investments. History tells us that long-term real estate out performs all other investments, except for those, which are deemed tax deferred! I recommend an investment balance by placing the maximum allowed by law into your retirement accounts and then all other investment funds into real estate investments. If you are limited to under $10,000 of investment funds, invest in real estate loans secured by trust deeds, which usually provide a 9 to 11% rate of return. If you have $40,000 to $1,000,000 you should consider our vacation rental programs which will pay you as much as 18 to 23% on cash invested. Investments above $1,000,000 may be enough to invest in the buying or building of apartment buildings, motels, and strip shopping centers that are combination residential and retail centers. In each of these cases we look at the entire financial plan of our client before we make a recommendation to buy an investment. The most expensive dollars that you have are the ones that you didn't invest today.

WHAT IS NEGATIVE AMORTIZATION AND WHY SHOULD YOU WANT TO KNOW ABOUT IT

Some people in our real estate lending industry always want the clients to accept fixed rate loans because there is no explanation necessary in order to sell the fixed rate loan programs. This means that they earn their commission regardless of the results to you is. Many clients are often told to stay away from those loans that have negative amortization. Well what is negative amortization? It is simply interest that the lender has earned that you have not yet paid for that accrues to the principle balance of the loan.
I believe that these dollars are better spent either invested in your retirement accounts or other investments in order to acquire the amount of money necessary to invest in rental real estate. Negative amortization simply increases the amount of the loan balance while your lender has agreed to accept a monthly payment stream that is less than the current rate of interest being charged on the loan. The negative amortization is usually equal to 1% of the loan balance on an annual basis.

The perceived hedge against negative amortization is that you are experiencing property appreciation. Properties are increasing dramatically, the average home in San Jose in 1972 was $27,000 and today is selling $500,000.00. Your property value is growing at one rate and the negative amortization is growing and at another rate of growth (1%) per year of the lesser loan balance. However, the true hedge is; what will you do with the money that you will save from our "SOLID GOLD EQUITY BUILDER LOAN?"

NOW THAT YOU KNOW ABOUT THE "SOLID GOLD EQUITY BUILDER LOAN" YOU CANNOT SELL A FIXED RATE LOAN WITHOUT GIVING THE CLIENT A CHOICE!

Here are some very interesting questions:
1. Will the fixed rate lender give you more money back when you paid your loan off in (30) years than you originally borrowed?

2. If you paid the principle down during the loan term will the fixed rate lender change the next payment to reflect the newer lesser value at the time of your next statement?
I can answer those questions and more. Will you invest the money that our "SOLID GOLD EQUITY LOAN" saves you? Will you invest it into your 401(k) and IRA and fully fund your retirement plan? We recommend that you let compounded interest work for you. Compounded interest can produce even more money than you originally borrowed over thirty years. If you desire to make a principal pay down payment, reducing the loan balance, our "SOLID GOLD EQUITY BUILDER LOAN" will result in immediate payment reduction.

THE FUTURE AND A RELATIONSHIP

I know that I'm doing my job that I will refinance all of these loans about every three to five years and repeat the savings process. We do not want "Equity Rot." We want asset growth. Compounded interest is man's greatest invention and next to buying rental properties is the very best way to invest your money. I believe that you should use both methods of investments working for you.

My job is to assist you to grow your net worth and to provide you with investment products that will long term provide you with retirement in dignity.

BASIC TERMS OF THE "SOLID GOLD EQUTIY BUILDER LOAN"

Below market start rate amortized over thirty years, paid bi-weekly.
Current rate is 2.950% amortized over 30 years.
Three methods of payments accepted:
• Interest Only
• Fully Amortized
• Or the Graduated Payments as described in the disclosure provided.

The payments are equal during each year and increase at a rate of just 7.5% of the past years payments during years two to ten. In years 11 to 23 they stay fixed. The loan pays off in 23 years. What this means to you is that for the first seven years the payments are never over 7.5%. An example of the payments:
If the first year payments were $1,000 each, then in year two they would be $1,075 each. This process means that you will know in advance exactly what the future payments will be and that they will fit in your budget.
There is no prepayment penalty.

Loan Amounts
$650,000 and below 80% Loan to value on purchases or 80% on our first loan 10% Loan-To-Value on our second loan with just 10% down payment from you.

$650,000 and below 75% Loan to value on refinances and cash/out Refinances at 70%
Super Jumbo Loans are available at slightly higher rates and terms to $1,650,000 and at 65% Loan-To-Value. Please note that on loans over $1,000,000 the interest is not tax deductible except for the first $1,000,000.
The loan has a fixed rate option available (should you ever want it for any reason).
The points are usually 1.50 to 2.5% of the loan amount. Title and escrow cost are about 2% of the gross loan amount.
APR's and Good Faith estimates are calculated and presented to every client after your Loan Agent accepts your application.